A Cable Car in San Francisco

ABOVE is a picture of a cable car being turned around at the end of the line. This is one of the many interesting sights you will see when you attend the 40th Annual International Consumer Credit Conference of the National Retail Credit Association, Associated Credit Bureaus of America, and the Credit Women's Breakfast Clubs of North America, to be held at Hotels Mark Hopkins and Fairmont, San Francisco, July 19-22, 1954.

The first cable car in the world was developed in San Francisco in 1873. People called it a fantastic idea, but within a few short years almost every metropolitan city in the world was using cable cars without apology. The cars were the idea of Andrew S. Hallidie who was then in the business of making powerful cables of twisted steel wire capable of hauling heavy loads.

The idea came to him one day in 1869 after he had seen four horses trying to pull a car up a hill. Suddenly, halfway up, one of the horses slipped and fell. The driver of the car threw on his brakes, but he threw it on so quickly that the chain holding the brakes snapped in two, and the car commenced to slide swiftly backwards down the hill, dragging the four horses after it. So, Mr. Hallidie, master-builder of cables, combined his trade with his humanitarian instincts and built a car that could be pulled up and down a hill at will by cables driven by steam power.

The city laughed. They called it Hallidie's folly. They said no cable and no power on earth could drag a car up the San Francisco hills. And no citizen would be mad enough to risk his life riding on the car if the trip was attempted. But he went ahead with his job. He perfected cables that would withstand strain. He had invented a grip that would seize the traveling cable and travel with it, and release it at will. After many heartaches he ran his first car up and down Clay Street hill on August 1, 1873. He was the only passenger as no one else would ride with him. After a few mishaps the journey ended triumphantly and cable cars had come to San Francisco.

In the ten years that followed the first cable car on Clay Street, cable cars were rolling on many other streets. And in every case the gallant little cars were climbing hills that horses balked at; climbing hills that were making pedestrian San Francisco breathless.

They finally became the affectionate property of the city. People still gather at the turntables and grunt and push with the gripman to turn the car around. Cable cars are a part of the tradition and the romance and the color and the fascination of San Francisco. And they are still dragging San Franciscans up the hills that electric cars and busses have not mastered.—Research Department, San Francisco Chamber of Commerce.

The Credit World

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The CREDIT WORLD

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CREDIT Is What You Make It

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Alfred, New York

IN THE MIDDLE AGES all credit that charged interest was banned and condemned by the church. Usury and moneylending were epithets. Later, Shylock was more than a character in a play. He was a symbol of all usurers who got people into trouble and then squeezed them into paying their bills.

This climate of hostile opinion gradually changed when it became apparent that business borrowers gained by borrowing. The use of borrowed funds provided the means for both repayment and interest. As this idea gained acceptance, commercial and business credit became accepted parts of the way of life. Then respectable people took part in lending and borrowing. Nevertheless, consumer credit still remained the field of the loan shark or the man with the mustache who foreclosed the mortgage on poor widows and orphans. More time had to pass before the hostile climate of opinion was to change for consumer credit.

As modern society developed it became apparent that the facts of life demanded that families have the tools or capital equipment of modern living. These tools of living, in the nature of houses, autos, telephones, and appliances, are all part of the development of a more active, healthy and productive people. Out of the recognition of this fact came also the recognition that better, more productive living also provides the basis for repayment of consumer loans. One may present some logical arguments to refute this idea, but it is generally accepted by our society and it is the basis of the respectability of consumer credit. With respectability assured, consumer credit developed intelligent application. Hence we now find ourselves with installment buying, amortized mortgages, charge accounts and other developed instruments of modern consumer credit with respectable institutions operating with them. We have, in other words, developed a whole scheme of consumer credit instruments and institutions to meet consumer needs for credit in a realistic fashion. Hence, consumer credit has acquired status and respectability where it once had condemnation and contempt. You are not devils any longer, but then again neither are you considered gods who can do no wrong.

Consumer credit is not without its critics nor is it considered to be incapable of doing harm to our society. This leads me to the consideration of the modern view of the place of credit in our economic life. Consumer credit in our economic life is considered good when:

1. It adds to productivity by being a method of providing the tools of living to enable those who consume also to live and produce.
2. It adds to the activity of business by providing an immediate market for goods.
3. It adds to the convenience of life by making economic transactions take place smoothly and efficiently.

On the other hand, credit is considered bad when:

1. It leads to waste as people buy what they do not need or cannot pay for.
2. It leads to inflation and high prices by increasing buying power faster than production increases.
3. It leads to excessive costs for record keeping and collection and places borrowers in financial difficulties.

Naturally these criteria are not absolutes. The total of good or bad in credit is a matter of degree of accomplishment of the criteria. The public conclusion that credit is good or bad, however, is important to all credit executives. It is important because most of you are lenders, and the lenders are held responsible for the results. This may surprise you and shock you, but it is true. You will take the blame if consumer credit causes trouble.

Then lender may or may not be justifiably blamed, but the reason he is, seems to stem from the following:

1. The lender has the initiative to grant or not grant credit.
2. The lender knows more of the problems of repayment as he sees more people struggle with the problem.
3. The lender can take a more realistic approach to credit than the borrower as he is not pressured by the emotions of family needs or wants, as is the borrower.
4. The lender is the one who puts pressure on the borrower for repayment which is often considered serious trouble by the borrower.

You may rebel against this conclusion and cite the doctrine of individual freedom to say the borrower has the responsibility for sensible borrowing. It will not do you any good. The precedents are all against you. Witness the pure food and drug laws, the narcotics law, child labor laws, and other laws designed to protect people from themselves. You might also remember Regulation "W." There is no need to belabor the point or bewail the facts of life. If credit causes trouble it will be the lenders who are blamed. Credit will be what you make it. You have attained the status of men who will be held accountable. Let us see how you have been doing.

Credit Picture Viewed With Alarm

There is a credit picture today and some people view it with considerable alarm. For example, here is a random choice of opinion. It happens to come from an article by a Dr. Melchior Palyi in *The Commercial and Financial Chronicle*. "How much longer can this process of private debt accumulation go on without necessitating wholesale liquidation, which is the very essence of a depression?" In another place in the article he says, "Consumer loans are surely one of the vulnerable spots in this fantastic paper structure." These statements may or may not be too alarming when considered along with the facts. But it is true that credit has been a contributor to the present high prices and inflation, and it has continued to increase. You have been granting more credit than you have been collecting.

To this time, of course, neither of these two definite conclusions has caused you many difficulties. On the other hand you have not yet met the challenge their ex-

istence portends. Now before you accuse me of making too much out of too little in the way of facts, bear with me while I give you a catalogue of credit facts.

Some general facts:

1. Total consumer debt in the U. S. has risen from $27.7 billion in 1945 to $76.8 billion in 1952.

This total income is made up of:

A. An increase from $18.8 billion to $53.1 billion in real estate debt. By the way, $60 billion is a more nearly accurate figure I find in other sources.

B. An increase from $5.6 billion to $21.0 billion in goods and services debt.

C. Other debts decreased from $3.3 billion to $2.7 billion.

2. This increase in debts resulted from loans by:

A. Financial institutions which increased loans from $15.4 billion in 1945 to $52.4 billion in 1952.

B. Other sources which increased from $12.2 billion to $24.2 billion.

These totals are high but when we compare the total private debt picture of today with 1929 it does not look too bad. In 1929 total private debt was about 195 per cent of the total national income after taxes. In 1952 the total private debt is estimated to be about 125 per cent of the total national income after taxes. On the other hand, considering the economic events that followed 1929, we can hardly say that is a goal to strive for. But enough of totals—let us look at some facts about people and their consumer debts exclusive of real estate mortgages.

1. First, a general statement about income seems desirable. As you walk down the street meeting average people in the United States you must realize that 60 out of 100 are in family spending units that have $3,700.00 per year or less to spend. This 60 per cent of the population has about 34 per cent of the total disposable income in the nation.

2. 31 people out of 100 will have no liquid assets; 70 people out of 100 will have less than $1,000.00 liquid assets; 30 people out of 100 will have more than $1,000.00 liquid assets. But of importance to you credit people is the fact that only 30 people out of 100 will have liquid assets in excess of their short-term debts.

3. A fact running counter to the trend of this catalogue is that low income groups seem to have increased their liquid assets since 1948.

4. To get back to these average people we meet in the street, we will note that 51 out of 100 do have consumer debt, and that these represent people from every income, marriage, and occupation group in the nation.

5. As to income we will find that 60 per cent of all people with income between $3,000.00 and $7,500.00, the so-called middle income groups, are in debt. Families with more or less income show a smaller per cent of this number in debt. At this point you might also recall a United States Department of Commerce survey of recent months that showed average income to be $4,000.00 with people going $400.00 in debt in 1951.

6. As to occupation we find 63 per cent of families in the skilled and semi-skilled groups in debt, and 57 per cent of the unskilled and service group. Other occupation groups have less of their numbers in debt.

7. 69 per cent of the people between 25 and 34 are in debt, with 59 per cent of those between the ages of 35-44.

8. When we look at family status we find 75 per cent of the married folk, ages 18-44, with children, are in debt. These are, as you know, our main sources of strength. These are the families of our nation in the prime of life or growing into the prime. Note that of all family spending units in this class, 75 per cent of them are in debt.

Before going on to another group of this catalogue of facts, I should like to point out that it seems that the poor or rich, young or old, and the single or married without children, are the groups that find the smallest per cent of their numbers with consumer debt. Here are some facts about people's attitudes toward debt and similar facts.

People's Attitudes Toward Debt

1. When people received increases in income they increased their debt as they had more resources to meet payments. On the other hand, when people had decreases in income they tended to increase debts to maintain their level of living.

2. People out of work or in other trouble expect to be given time or be relieved of payments temporarily, and further expect to borrow for the necessities if they run out of money. This idea may seem ridiculous to credit people but I think you will have to live with it so I want to tell you how I know it is true.

Back in 1949 this country seemed to be in a recession. We, in the Alfred University Area Study program, set out to study this impact on people in our area. One of the groups we covered was the unemployed group. We checked with every one of the people who passed through the unemployment insurance office for one month. Among other data we obtained were the following:

16.0% were meeting their bills promptly.
25.0% were meeting nearly all bills.
23.0% were meeting a few bills.
76.0% thought they could get credit if they needed it.
15.0% said they could not get credit.

One year later we checked these same people by name and found that 48.0 per cent of them had gone into debt while unemployed and of those 77.0 per cent had not been able to pay off those debts at the time we contacted them.

4. You are all noting the increased difficulty in collections. Perhaps some of you read a rather revealing article in the *Wall Street Journal* which presented a picture of increased collection troubles and more "dead beats" as expressed by the retail credit bureau managers throughout the United States. Debts are getting more difficult to collect.

I think the facts should have some meaning to you. First, I think they indicate that it has been no trick to grant credit in the past few years. Prosperity in general, clean credit slates after the war, and rising incomes have given you a wide public to which to lend money. Second, I think they indicate that you have to prepare to meet slow collections in time of trouble and even help people out. I think that you are going to have to become more selective in granting credit in the immediate future. There are people who are not too far in debt now who can use more credit, but there are also many people, who will request more credit, who should not have it. It is

not to their advantage, nor to the advantage of economic stability. You must, it seems to me, separate one group from the other.

The amount of attention the granters of consumer credit are paying to good credit procedures is important. These are the real credit controls we all hope will operate to make credit a factor for "good" in our system of economics. Free enterprise in credit means control of credit by the use of good credit procedures.

Before getting into this I want to tell you what I hope to accomplish. I do *not* expect to tell you anything new about credit procedures. You could tell me. I *do* want to start a chain of thinking and evaluating going on in your minds at this time, in view of what I have said up to this point. But it is your conclusions that I think are important, and not mine. You are the ones who are making consumer credit whatever it is to be. You are the people who will face the problems of control or moratoria if credit breaks down. Therefore, I intend to state a list of a few of the standard accepted credit factors and let you ask yourselves what you think is being made of consumer credit.

1. Credit is basically a convenience, and not primarily a sales point. Yet, how many people do you see "selling credit" rather than selling merchandise?

2. Secured credit is a protection primarily against unwillingness to pay and to provide a prior claim on assets. You can all explain how repossessions and foreclosures are unprofitable. This is especially so in a declining price level, which we might face. Yet, how many people do you see who ask nothing about the prospective borrower except his ability to make the down payment?

3. Ability to pay depends on income less basic obligations. In other words, it is the surplus dollar in income, the dollar left after fixed obligations, that makes credit possible. It provides the means of repayment. How many credit granters do you see neglecting a complete analysis of the borrower's financial picture, including the stability of his job, his family obligations, and his other commitments of part of his income?

4. Credit is not granted in general. It is a personal matter. It is granted to people with faces, and jobs, and assets, and obligations, and reputations. You people in consumer credit recognized this in a significant way, it seems to me, when credit bureaus were organized to pool credit information about people, in order that credit could be wisely controlled by being wisely granted to people who could afford it. Yet, how many credit granters really make the use they should of the credit bureaus in the United States and really know their borrowers?

That is the end of the list and it leaves us back at the beginning. "Credit is what you make it." Consumer credit is now an accepted part of the economic system. You will get the blame *and the controls* from government if consumer credit causes trouble. The market for proper consumer credit is narrowing. The best in consumer-granting procedures are no more than adequate, but they are that, and they do exist. Are they being used? What is your judgment? What are you making of consumer credit? Are you getting people in financial trouble or continuing convenience? Are you encouraging waste or continuing increased productivity? Are you contributing to inflation and bust, or to sustained business activity?

★★★

Age Analysis, Procedure and Evaluation

WALLIS G. HOCKER, ***Manager of Credit Sales,*** **Chas. A. Stevens & Co., Chicago, Illinois**

IN THE September 1953 issue of The CREDIT WORLD I made an attempt to show the value of age analysis of accounts receivable. As a result of the article, "Don't Let Collection Percentages Fool You," I have received numerous inquiries requesting some type of additional information on the subject of age analysis. These inquiries have prompted this article which suggests methods of aging and gives a basis for analysis of the aging results.

A single aging within itself is of little value. Just as a color is of meaning or value only when compared with other colors, so when thinking of age analysis we must think of comparisons. These might be with agings of other like firms or probably more preferably with prior agings within your own organization.

The value of the comparison with other firms will necessarily be governed by the knowledge of the other firms' operations. That is, credit and collection policies, charge-off policies, loss ratios, application of miscellaneous credits, income such as interest or carrying charges and the type of customers to which the firm caters. The value of comparison within one's own organization increases with the accumulation of age analysis reports.

The aging report of receivables can rightfully be termed an "Accounts Receivable Condition Report." The aging tells you the status of the amounts that make up your accounts receivable and it shows the current dollars and the past-due dollars. The true value can best be determined by comparison with agings of comparable previous periods, then projecting the anticipated loss based on loss experience of the previous periods. For example, if agings for three prior year-end periods show 3 per cent in an "over 6 months" past-due category and you had a loss ratio of one-fourth of one per cent, then it is logical to assume that if the results of a subsequent aging show the 3 per cent past due for "over 6 months," the loss will be approximately the same, or one-fourth of one per cent.

Establishing an Aging Program

Agings taken more often than at year-end, when compared with prior agings for comparable periods, show any changes in condition which might affect ultimate losses. This is undoubtedly the greatest benefit to be realized in regular agings. It presents factual information enabling an adjustment in collection policy or effort toward the control of loss ratio.

There are many factors that should be determined before establishing an aging program.

1. The aging should conform to the requirements of the accounting firm that does your annual audit.
2. The aging should be, as nearly as is practicable, homogeneous with other agings of other business firms of the same type as yours in your general area. For example, if firms with whom you might compare age by 30-day periods, and your auditors permit such groupings, then you probably will want to age on this basis.
3. The aging should be planned so as to provide all the information you might need in analysis or follow-up of accounts. Perhaps you will want to review collection activity on all accounts beyond a certain age group. Or maybe management or your auditors will want to review accounts above a selected dollar amount. The age analysis sheets should be keyed to the account file or the names listed on the aging sheets on specified groups of accounts.
4. The frequency and thoroughness of the agings. Will they be monthly, semi-monthly, quarterly or semi-annually? Will you age all accounts or just a percentage of them?
5. The personnel who will do the aging. Establish at the outset the person, persons or department who will do the aging. Schedule the job and inform the employees in detail the reasons for and procedure of aging. Explain the results and benefits of agings so that you can build interest and anticipation in the assignment.

Method For Aging Must be Determined

Once you have established what you want in any aging, then the method must be determined. Billing machines should be given first consideration. Most of today's machines can be equipped to do the age analysis. The manufacturer's representative will be glad to discuss it with any interested party.

If aging is not practicable on the billing machine then age analysis forms can be secured from the National Office of the N.R.C.A., or, of course, you can prepare your own forms. A columnar form usually suffices.

The age groups can best be determined by your accounting firm's requirements and your own needs. If your accounts are payable in 30 days then you might want to group by 30 days up to, say, six months and over. On the other hand grouping by 60 days would be simpler and probably just as effective. In some localities and businesses you might choose to consider 90 days as current and group at 60-day intervals up to eight or nine months.

Credit balances should be listed separately. A definite policy should be set regarding the consideration of credits other than payments. Are they applied to current purchases or to the oldest balance? Either way should be satisfactory so long as the procedure is consistent. In the aging of commercial accounts as a contrast to retail accounts, a definite attempt might be made to relate payments and other credits to the particular purchases to which they apply. This would hardly seem necessary in retailing and in most cases would be impractical.

If the accounts are installment, then establish the method of determining the age of the amounts past due. Also "Add-ons" will have to be interpreted, meaning if an add-on is made, is the account automatically considered

Reading this publication carefully and regularly will contribute to your success as a Credit Executive.

up to date or will you consider all carried-forward balances in the age analysis?

The frequency of agings ideally should be every 30 days. Again, it will depend a lot on the type of business you are in and, of course, on economic conditions in your trading area. In my previous article I stated that collection percentages can indicate trends or serve as danger signals. Use collection percentage figures to serve as a warning to speed up aging if they indicate a change from normal.

To ensure accuracy of agings the entire control or controls of accounts aged are balanced to the receivables control totals. If, however, sufficient confidence can be placed in the personnel doing the aging it should not be necessary to age current balances except possibly at year-end. In other words, if the group of accounts is large you might choose to list on the age analysis sheets only those accounts which are not current. This should greatly speed up interim agings.

Age Only a Part of Accounts Receivable

Frequently age analyses are made of only a portion of the accounts receivable. The results percentage-wise are then applied to the total receivables outstanding. Although this is normally acceptable, the ideal would be to age the entire receivables. This is, however, impractical time-wise and expense-wise in many cases. If the entire receivables are not aged, then what percentage will be aged? If only a percentage is aged, then to get that value of comparison it would seem necessary to age the same percentage (group) each time. However, if this is done you have no analysis of the remaining receivables.

It would seem that if the entire receivables cannot be aged regularly, then a minimum of 25 per cent should be covered at each aging, the results percentage-wise then applied to the entire receivables. The 25 per cent should be selected so as to provide a portion for comparison with the same accounts previously aged and a portion in new groupings. This will provide like comparisons and at the same time provide a rotating basis so as to age all accounts within a reasonable period.

Some will contend that the regular review of accounts for collection work eliminates the necessity for agings. Actually such reviews are agings. The accuracy of these reviews, however, could in some instances be questioned. In addition, although the review serves to point out past-due accounts, it does not give an accurately defined picture of the over-all condition. Unless we make an analysis or recapitulation we must draw on memory and estimates to make any kind of a comparison. This is likely to result in guesswork and not too many firms care to have the capital they have tied up in receivables controlled in this manner.

To me the most important thing to consider in aging is consistency. Write an aging policy and procedure. Establish the aging periods or dates and consistently follow the same practice. As aging reports are accumulated and compared with loss ratios and previous agings, each subsequent aging will increase in value. ★★★

Collections

CHARLES H. DICKEN, *Credit Sales Manager*, Gimbel Brothers, Philadelphia, Pa.

THERE HAS been an increasing interest among credit executives during the past several years in the problem of collections. One is aware of it at conventions and local meetings and by the increasing amount of space given to the subject in our trade journals. During the last three years, the trend in collection turnover among department and specialty stores has been down, although one could argue that the over-all bad debt losses have not increased significantly or at least have been kept to a good operational figure in most stores.

We are all aware that increased taxes and increased living costs have had their effect on collections, but it does seem paradoxical, in a time of full employment plus a continued increase in individual savings, that we should be faced with a collection problem which apparently is causing an increasing number of credit executives more and more concern.

Contrasting today's economy with that of the early thirties and then comparing collection results during the same contrasting periods, one comes to the conclusion that there must be something wrong with collections today that cannot be attributed entirely to the peculiarities of our present economy. It might be well to ask ourselves this question, "If we do in fact have a collection problem today with full employment, what would it be if a significant number of people were unemployed?" Put another way, "If we are unable to collect accounts satisfactorily today, when almost everyone is working, heaven help us if unemployment ever does become a problem."

In my opinion, it all adds up to this: The solution of whatever collection problems we have today is relatively simple compared to the solution of the collection problems we had during the early thirties. Perhaps we did not recognize the problem soon enough. It could be another case of "too little and too late."

In order to obtain the proper perspective, I think it might be well to recall just what did happen during the early thirties and the years that followed. During the depression, most stores were faced with unprecedented bad debt losses, and collection turnover became so low that the problem was really highlighted. Credit executives spent a great deal of time and effort in streamlining their entire collection procedures. It was during this time that some stores adopted impersonal collection notices to be sent to customers much earlier than was felt to be good practice by most stores. Changes in credit and collection department organization were made. Attention was given to systematic aging of accounts and the segregation of past-due accounts. Systems of credit control were adopted and enforced in stores that previously shied away from this type of procedure. Many stores adopted the policy of writing off accounts to profit and loss monthly instead of annually or semi-annually. The point is that many new and different things were tried in an effort to solve a problem that had been highlighted because of its seriousness. Much was done to educate the general public to the importance of paying bills promptly.

A great many of these changes adopted by some stores during this period later became standard practice for most stores. The result was that all stores were doing a much better job during the latter part of the thirties. Then came Regulation "W," and regardless of our feelings about it, certainly no one can deny that it took up where we left off, and because of the arbitrary limitation as to purchases on past-due accounts, we found ourselves in this position: Our collection percentages attained unprecedented heights and our bad debt losses were reduced to an absolute minimum. This was accomplished with a constantly decreasing amount of collection effort.

These were the days when we were faced with many other problems. Because of shortages and turnover of personnel, we had to devote our time to problems of production and it became necessary to streamline our operations in order to get the work out. Some stores were quick to recognize this. You all remember the experiments in simplified billing and later the beginning of the change to cycle billing in an effort to solve these problems. All during this period, little time or effort was spent on collections. Experienced collection people were often utilized for more important work at the moment, and collections and its problems or lack of them at the time were left to less experienced and newer personnel.

Change in Attitude Toward Collections

Next came the end of the war and the end of Regulation "W" as applied to charge accounts. Of course, collection percentages immediately began to drop steadily but the bad debt losses remained favorable. It is true that most credit executives realized that the people in their departments responsible for collections had never really been up against real collection problems. Stores had a similar problem with many buyers who had experience only in a seller's market and were not prepared at all for a change to a buyer's market.

Unfortunately, most of us felt we had to give priority to other more pressing and serious problems. A lot of capital equipment had to be replaced, systems streamlined, and departments remodeled to take care of rapidly expanding credit business. More stores were changing to cycle billing and this meant tremendous changes in layout, systems and procedures. It was only natural that collections again took a back seat.

The natural result occurred. Gradually collection percentages decreased. Gradually, our gross write-off to profit and loss increased. I believe that this was caused by two reasons:

1. Not enough collection work was done.
2. That which was accomplished often was ineffective due to inadequate training and experience of personnel.

Many credit executives have recognized these facts and have taken corrective measures during the last few years with good results. What did they do or what could be done by top credit management to reverse the trend in collections?

It is conceivable that those credit men successful in solving their collection problem might have adopted the following program or a similar one. This program contains nothing new or astonishing. I only hope it might serve as a possible check list for credit managers. I firmly believe it will pay off if followed. Have you analyzed your primary dunning procedure? Is your schedule being followed on all accounts each month or do you find that every month for some reason or other, some accounts are missed? If your schedule is being met, do you start your dunning soon enough? If you do not normally dun as soon as the account is past due, give serious consideration to this possibility. Do you use a statement insert in addition to the regular mid-month dun or notice? If not, consider this inexpensive aid.

If you are one of the few remaining credit managers who do not use impersonal notices as statement inserts or as mid-month duns, why not take advantage of this streamlined method of covering more accounts with less personnel? Do not take for granted that the people sending out these first collection notices know exactly when to use a given notice. Many of us have been surprised to learn that among various clerks there have been many different concepts of just how and when a particular notice or form should be used. It is not improbable that your people need training from supervisors down. If you have not already done so, develop a progress report so that everyone concerned can see each day if your predetermined dunning schedule is being met.

One of the most important parts of primary collection effort is the proper handling of exceptional cases. It is entirely satisfactory for the volume collection work to be done in a routine fashion but we all know how important it is that those accounts that become exceptions during this period are handled in a personal and special manner.

We all know this, but have we checked our system in determining these exceptions? Are we sure that they are being handled correctly, and have we actually defined what these exceptions are in such a manner as to leave no doubt among our employees? The entire procedure used to report and control overlimits should be analyzed. If it is found to be loose and vague, it should be formalized and everyone's responsibility should be clearly defined. A system should be devised which would definitely place responsibility for accounts over a certain dollar amount with your top supervisory personnel.

Is your policy concerning the authorization of additional purchases to past-due accounts vague? Formalize it. Establish a period beyond which you will not add to past-due accounts. Naturally any such policy must be flexible. But by a system of referral, limit that responsibility to a comparatively few people. Because we all operate on liberal floor-release limits, set up a definite procedure to follow if unauthorized purchases appear on past-due accounts. If the account is a certain number of months past due, insist that the customer be notified at the time purchases are made.

I presume all of us will agree that after the preliminary notice stage of collections, it is necessary to handle the account in a more personal nature. It is my feeling that because of lack of experience and lack of constant training, many times this important function is being handled in many stores in the same routine fashion as the first stage of dunning. A constant use should be made of a progressive series of form letters with no thought given to the cause of nonpayment or no attempt made to devise a procedure designed to fit the individual case. If you do not believe this, analyze a few of the individual accounts handled by your collection experts and I believe you will be amazed at the lack of imagination shown. And do not blame them too much.

The blame probably belongs to you and your collection manager for not developing that special collection instinct and technique you learned long ago. To help this, I have always been in favor of some sort of segregation of accounts after they become a certain time past due. There are many ways in which this can be done without disturbing bookkeeping controls and without causing transfers. Such a segregation gives you and your top people an easy way of visually seeing results or lack of results. In this connection, I urge you to consider some simple form of aging to indicate to you the trend of past-due accounts. If this is done by sections, it becomes valuable as a measuring stick of the efficiency of various people or groups of people.

How many contacts a month are you getting in this secondary phase of collections? If only one, consider stepping it up to two. If you are not getting one, you will probably find that the increase of past-due accounts has increased faster than your personnel. If the problem is serious, consider forwarding to outside agencies sooner so that your own people can get proper coverage and prevent more accounts getting into the older classification. It might be a bit expensive at first but it will pay in the long run.

Another good system of control is to insist that the top collection man see every account over a certain number of months past due or over a certain amount or both.

This provides a splendid check on type of work done and automatically points out areas where additional training is required. I believe the most effective way to accomplish this is by conference. In other words, each collector would know that each month he would review all accounts over a certain number of months past due with his supervisor. At that time, he, of course, would want to be able to justify the approach taken and also pick up additional pointers from his boss.

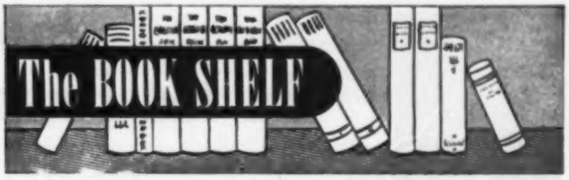
Have you a good idea of the effectiveness of the attorneys and outside agencies you use? Is it possible you use so many different ones that you are not an important factor with any? On the other hand, you may have concentrated to the extent that, because of volume, your agency is merely working the cream. Are you big enough to use the specialized services of an attorney on your payroll or on a retainer basis? If you do not charge off to profit and loss each month, I urge you to give it serious consideration. It enables one to set up a system whereby you or your assistant can actually discuss each account charged off with your divisional credit manager or collection manager and the collector working on the account. It also enables you to discuss a trend quicker, especially if you follow a policy of automatically charging off any account beyond a certain period past due. In my opinion, this is very essential to a good operation.

Re-examine Procedure on Installment Accounts

I believe it is time that stores re-examine their collection procedure on installment accounts. Many stores already have done so. There is absolutely no reason why consumers should have so much more respect for a due date on an installment contract with a bank or mortgage company than they do for the same kind of contract with a department store. The only reason this is true is because we have allowed it to be so by lacking respect ourselves for our own terms. Apparently, the secret in collecting an installment account is to build up this respect.

Obviously, the first step is the interviewer. A constant training program should be inaugurated to make our interviewers conscious of this so that they in turn can sell the idea to our customers. Our system of notices should be patterned after those used by banks and personal loan companies and should definitely give the customer the understanding that by the time the second payment is past due, the account is serious. It is necessary, I believe, to reorganize our collection procedure so that from the time the account is two payments past due, it receives personal attention. Goals should be set so that, on a planned basis, no account will remain on the books after a certain number of payments past due and that time should, in my opinion, be reduced until we will be following what is considered to be good practice in other fields of installment credit. Some similar approach should be used in regard to revolving credit.

I have discussed no new or startling ideas. I have merely emphasized a lot of fundamentals and, I hope, have given you a check list. I firmlv believe that whatever collection problems we may have can be corrected in the main by proper organization and proper training. It is important that the credit executive really address himself to the problem and give it the priority it would appear to deserve. ★★★



Credit Manual of Commercial Laws (1954 edition, National Association of Credit Men, 229 Fourth Ave., New York 3, N. Y., 810 pages, $10.00). When 44 state legislatures meet in one year, something is bound to happen to laws affecting credit and financial management. This explains, in part, the extra attention the 1954 edition of The Credit Manual of Commercial Laws is attracting. For example, conditional sales legislation has been changed in six states, chattel mortgage laws in ten states, and mechanic's lien statutes in seven states. All such amendments and new laws are presented in digest in the 46th annual number of this publication of The National Association of Credit Men. A new departure in the Manual is a quick-reference Service Section for everyday use, containing such fresh features as definitions of balance sheet terms, 14 financial ratios of 70 industries, simple and compound interest tables, rules of motions in parliamentary law, and identification of the "alphabet" bureaus and agencies in Washington. The Manual is not a textbook. It is a top-desk tool to guide executive decision on legal phases of business transactions from arrival of an order to receipt of the check. Among the hundreds of legal topics covered in latest developments are laws relating to bonds on public improvements, Federal and State; contracts and breach of contract; fraud and bad checks; leases; trust receipts; consignments; bulk sales; order cancellations; collection procedure; negotiable instruments; assignments of accounts receivable; trade acceptances; guarantees; bankruptcies and reorganizations; and claims against estates of decedents.

Practical Financial Statement Analysis (McGraw-Hill Book Company, 330 West 42nd Street, New York 36, N. Y., 710 pages, $10.00). This is a new, thoroughly revised edition of a well-known reference book by Roy A. Foulke, Vice President, Dun and Bradstreet. It is written from the practical, everyday point of view of the business executive, the commercial and investment banker, the accountant, and the credit executive. It gives the story of the development of the use of financial statements in American business and banking; describes the items which comprise financial statements and the techniques of sales analysis to the small business; and covers comparative and internal analysis of balance sheets and income statements of commercial and industrial concerns both large and small. Chapters are included on how to compute statements of sources and application of funds and on how to compute the break even point. There is an unusually comprehensive chapter outlining the recent evolution in accounting theory and practice, the reasons for the evolution, and the institutions which have influenced it. In this new third edition, all tables have been revised and brought up to date. Here is a practical, easy-to-read volume which is based on the author's actual experience in analyzing thousands of financial statements for some 30 years.

Public Relations In the Hospital Business Office

Stephen F. O'Connor
Credit Manager, DePaul Hospital
St. Louis, Missouri

WHEN DEALING with sickness, there is no yardstick to measure the price of a cure. In hospital care we have found that one of the most plaguing illnesses is financial worry. There is no doubt that sickness presents a financial worry if one must go to a hospital, especially if it is the breadwinner who is ill.

The first step toward good public relations and a speedy recovery is to make the patients feel welcome and relaxed upon admission. The next step takes place with the nursing care they receive by making them as happy and comfortable as possible while they are sick. The last and most important step is when they come to the business office, because the way they are treated at this time will make a lasting impression.

Many times an account will become quite large before patients realize that perhaps it is out of reach to pay it on weekly statements. In this case the credit manager sees patients in the room if they are not too sick, otherwise, a responsible member of the family is asked to come to the credit office. In either instance they are told that financial trouble and sickness cannot go together, and the most important factor in getting better is to forego worrying about finances. They are assured a payment plan will be set up to meet their budget.

Preliminary credit information is obtained when the patient is admitted. When the account gets large, this information is useful and the credit bureau is asked for a complete credit report. This complete report is a vital instrument to gauge whether the patient will be able to pay the account in full, or a part payment plan would have to be set up. The account is then marked, and when the patient is discharged, the business office, in most instances, will know if the account is to be paid in full or not. If the account cannot be paid in full, the person is referred to the credit office.

This office, being an integral part of the Business Office, handles the financial problems of the patient in private. Collecting accounts successfully can only depend on how the account is opened. Statistics prove that an account properly opened is 95 per cent collected.

The credit manager listens to many stories during the work day. The problems these people bring to the credit office are many and varied. Prudence on his part plays an important role at this time by encouraging the patient to talk, and being a good listener. While the patient is talking he is relaxing and it is much easier to get information from a relaxed person than from one tensed with emotion. Some of the problems will include the present sickness, other family sickness, lack of work, or failure to pay the insurance premium until the policy had lapsed. A really hard luck case is the person who comes to the hospital fully confident there is sufficient insurance, only to find the policy will not cover because the illness is a prior condition.

All of these problems are categorized into a true and a false classification. The true will pay with little trouble if only given the opportunity. The false will bear watching, and a close follow-up will have to be maintained.

To create the desire to pay, it is necessary to get as much information with as much tact as possible, without giving the impression of prying too deeply. After all, we have to keep in mind we are dealing with a person who has been ill, and still may have medical bills and doctor bills staring them in the face. These people are in a different frame of mind than a person buying an article of merchandise. We are asking them to pay for something they did not want in the first place, as no one wants sickness.

From the information obtained at this interview, a line is developed surrounding the economic situation involved, that is, salary, rent, open accounts elsewhere, and other obligations, and a rate of payment is suggested. The amount set is always based on the lowest payment the patient can afford. The date of payment is always set for the least encumbered payday. It is always stressed that the payments are small, the patient has agreed the payments could be met, and the payday is the due date when most salary is left. Barring unforeseen circumstances there is no reason why the payments should not be made. In the event that the patient cannot pay the amount stipulated, he is told to remit what he can afford to pay, and state the reason why he cannot afford the full amount. It is much better to get the smaller amount if there is a just reason, for in this way the patient remains in the habit of paying and the account remains active.

The Road to Financed Happiness

Mr. Blank's wife was a patient in the hospital and a large account was in the offing. When he came to the credit office he was beside himself with worry. He was heavily in debt due to other sickness of his children, and, to make matters worse, his wife would have to return to the hospital at a later date for major surgery. During the interview he said if we would just have faith in him, as soon as his wife would be able to take care of the children, he would get an additional job to pay all his outstanding debts. Today that man holds his head up not owing anyone and is quite happy.

Mr. Doe was heavily in debt, married, had a family, also a doting mother. She came to the credit office, said the account for her son should be charged off, as he had so many other accounts. Wasn't this a charity hospital? She was told to have her son come in, and when he did he was referred to a financial counselor, who worked out a plan for the payment of all of his debts. He, too, holds his head high because he knows in the near future he will have all his bills paid.

Then we have a brighter side of the picture, when the new father comes in to the office wondering how he can pay the account of his wife and new offspring. He had been working at his present place of employment for only five months, and, consequently, had had no chance to build up a reserve fund for the hospital. He was really in dire circumstances. After listening to his story, it developed that he formerly worked for a company which provided group insurance for its employees and their families. This type of insurance would cover a maternity case if it occurred within nine months after termination of employment. The claim was verified over the telephone with the former company, and the new father was advised that the insurance company would cover approximately 90 per cent of his account. He was able to take care of the balance of the account, and still have enough left over to buy shoes for the baby.

When you handle similar cases almost daily, you must devote a little of your time to their problems, and to them, since theirs is the most important problem in the world. In the end, when they make their final payment, it is a pleasure to see their faces light up in relief. Then you know you have earned the best public relations in the world, a person's happiness! ★★★

Retail Credit Education Week

May 9 to 15, 1954 has been officially designated as *Retail Credit Education Week.* Local retail credit associations and credit bureaus should start *now* on specific plans and preparations necessary to make this project an outstanding success. See the Proclamation by Henry C. Alexander on Page 4, December CREDIT WORLD.

During *Retail Credit Education Week* every possible method and medium of communication should be utilized to tell the story of consumer credit to the public. The general theme will be, "Buy Wisely—Pay Promptly." The fullest cooperation between local credit granters and the credit bureau is essential.

The first step is to appoint immediately a *Retail Credit Education Week Committee.* The Committee should be empowered to set up a complete and detailed program. They will then present the program to the association membership for approval.

Of course, funds will be needed! It is our recommendation that the Committee set a financial goal and solicit funds from all retail stores and firms in the area doing a credit business. Banks and wholesale firms should be invited to contribute to the fund. It is important that every businessman and firm in the community contribute, even if in small amounts, so that their interest and cooperation is assured. The Committee should point out in soliciting funds that when credit conditions are improved, and people generally trained to regard their credit obligations as a sacred trust, the entire community benefits.

One important feature of *Retail Credit Education Week* will be "Pay Promptly" newspaper advertising. You are urged to send your request now to the National Office for a free copy of our new "Pay Promptly" advertising portfolio. This contains fourteen newspaper advertisements. Mats can be secured later from the National Office at modest cost. These mats allow space for the name of the credit association or credit bureau.

Then, depending on available funds, a series of newspaper advertisements should be selected. An effective campaign could be based on advertisements to appear on Sunday, May 9, on Wednesday, May 12, and on Saturday, May 15. Perhaps it will be possible to finance advertisements to be run every day. So much the better! In communities where there are several newspapers, different advertisements should appear in each one. For maximum impact the newspaper advertising campaign should continue after *Retail Credit Education Week.*

The active cooperation of radio and television stations should be enlisted. Spot announcements concerning retail credit in many cases will be made by radio stations as a public service. Arrangements should be made for interviews between local credit managers and the manager of the credit bureau to be broadcast or televised. During these interviews the significance of *Retail Credit Education Week* and the story of retail credit could be brought out and emphasized by question-and-answer technique.

Another important area of publicity will be provided by the local motion picture theaters. Slides highlighting credit and its important role in bringing more of the good things of life to more people sooner should be prepared and shown during intervals between features.

Because credit possesses such a definite moral and character aspect, religious leaders should be asked to devote their sermons, at least in part, to credit on Sunday, May 9. This phase of *Retail Credit Education Week* will prove to be one of the most important and effective parts of the entire program.

The *Retail Credit Education Week* Committee should approach the religious leaders of all faiths and denominations in the community and enlist their active support in making Sunday, May 9, a day of concentration on the moral and character significance of meeting all obligations in a prompt and satisfactory manner.

In The CREDIT WORLD for June, 1917 appears an article by Carl Wollner, then Credit Manager, Oriental Oil Company, Dallas, Texas. In that year the Dallas Retail Credit Association sponsored and promoted a highly successful Credit Education Week which was opened by a "Meet Your Obligation" Sunday. From that article we have taken the following excerpts:

"Who ever heard of a credit association trying to get the churches to help in a campaign to better credit conditions?" That was a question often asked when I first approached the subject. But we thought here was our opportunity to do some good for the community and for our firms as well.

"The church, as everyone knows, has always stood for honesty. It has stood for the commandment 'Thou shalt not steal,' and, for that reason, the church has always been a great factor in urging people to be honest, to pay their just debts, although the appeal did not usually come in such a direct way.

Movement to Better Credit Conditions

"Now, why did we try to interest the churches in our movement to better credit conditions?

"Simply because we realized that where forceful methods cannot be employed we must appeal to whatever power of good is in every man, and one way of starting our educational campaign, was to have the pastors appeal to their vast audiences from the moral aspect of the credit business. No one can dispute the fact that the man who wilfully neglects his financial obligations, who buys goods on credit when he knows he does not intend to, or will not be able to, pay for them, is not morally clean.

"When I addressed the Dallas Pastors Association on this subject, I pointed out that here was an opportunity for the churches to do some practical good for the community and, incidentally, for themselves. For themselves, because if they have a sermon on a business subject of this kind, they will be able to induce a great many people to come to church who would not come otherwise. And, last but not least, the appeal was made from the viewpoint of church advertising, in that the Association pledged itself to advertise the 'Meet Your Obligation'

Sunday as fully as possible in order to induce church attendance and thereby make the movement a success from the standpoint of the churches as well as the merchants.

"We then arranged to have as guests at our next weekly luncheon a number of pastors and merchants, so as to secure the cooperation of all parties concerned. Subsequently, we worked out our advertising campaign, starting off with a letter to every pastor, explaining the entire problem and bringing out the salient points that were to serve as basis for the sermons. We made it a point to outline our advertising campaign in this letter, so that the pastors knew we were keeping faith.

"On Monday, previous to the 'Meet Your Obligation' Sunday, we had a committee distribute hundreds of attractive posters all over the city, placing them in store windows, banks, elevators, and all places where results could be obtained. It might be well to mention that we used one uniform design for all advertising, and because of the contrast of color, the suggestion of the little old country church, and its strong yet simple reminder, the appeal was most effective.

"Attendance at the churches was excellent. The sermons preached were to the point and practical. Some of the strong points of the sermons are brought out in the following excerpts:

Rev. William M. Anderson, Jr., Associate Pastor of the First Presbyterian Church, said: "The stress of world conditions imperatively demands that all men meet their obligations. All life, with its complicated relationship, is built on the groundwork and hung together by the same force. Whether we call it faith in religious life or trust in the social life, or credit in the business world, life is built on confidence in the individual, and confidence rests on trustworthiness. The family depends on it. Husbands and wives demand it. A child learns to trust his parents. All governments depend on honesty, which is trustworthiness. The only foundation for business is in the honesty of a man's intentions. Credit business has come to stay. It is part of life and a prime factor in business.

"A man should meet his obligations for the following reasons: 1. A man's own advantage demands that he meet his obligations. 2. Common honesty demands especially that a man meet his obligations. 3. The stress of world conditions right now demands especially that every man should meet his obligations. 4. God's law of righteousness demands it.

Dr. George W. Truett, pastor of the First Baptist Church, used for the text of his sermon, "I am a debtor," a quotation from St. Paul. He said:

"Faithful consideration should be given by everybody to the homely, old-fashioned, fundamental virtue of honesty. That which we seek above all else in our relations with others is honesty. The question of honesty goes to the foundations of life in all realms—to the homes, to the state, to religion, to everything. The men who give stability to business and society must be honest men. Debt is synonymous with credit and credit should always mean confidence."

Remarks of Rev. S. H. C. Burgin

The Rev. S. H. C. Burgin, pastor of the First Methodist Church, said:

"Money is only just so much metal and paper. Hoarded up it accomplishes no more than an equivalent amount of scrap iron. Linked with personality, it becomes so much power. Money has well been called portable manhood. After great religious revivals there is always a revival of debt-paying, because conversion and debt-paying go hand in hand."

The Rev. J. Frank Smith, pastor of the Central Presbyterian Church, said:

"The movement in favor of men meeting their obligations is indicative of that intimate association between church and the business world. Once the State and the church emphasized their differences, but now the State itself is accomplishing many things once regarded as the sole province of the church. Religion and business have been divorced too often; but it has come about in recent years that if a man's religion does not get out of the realm of prayer and profession of Christianity and make him honest it is set aside as a worthless accomplishment."

* * *

The foregoing excerpts from Mr. Wollner's article will be helpful in enlisting the cooperation of the religious leaders in your community in *Retail Credit Education Week*. It is worthy of note that as a result of these sermons several churches reported increased collections and many instances of long-overdue pledges being paid.

Shown below is a reproduction of the display poster distributed widely in Dallas to publicize Meet Your Obligation Sunday. You may wish to use a similar poster for your program.

In this article we have attempted to arouse interest in and enthusiasm for *Retail Credit Education Week*. We have discussed some of the recommended approaches. Subsequent articles will develop other aspects of the project. The National Office would appreciate your reaction to this program. Please inform us of your tentative plans and let us know in what way we can help you.

The National Office will be prepared soon to send a portfolio of helpful material to local committees. When you write for your "Pay Promptly" advertising brochure tell us if you would like such a portfolio. This will guide us in estimating the number required.

The important thing is to get started *now*. With all of us cooperating, a mighty floodlight will be focused on retail credit during the week May 9 to 15. The benefits to all will be incalculable. ★★★

What Is the Most Important Credit Problem *for 1954?*

Opinions of Management

The most pressing retail credit problem to be considered in 1954 will be to combine effectively a sensible, well-balanced credit-granting policy with a prompt, courteous but firm collection program. Sufficient credit services should be developed and made available, so that each 'customer economic level' is properly serviced. Community economic potentialities should be carefully checked and investigated, and the store's credit granting and collection policies should be carefully geared to these findings.—Malcolm Brock, President, Malcolm Brock Company, Bakersfield, California.

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Collections are naturally of paramount importance but I believe that taking everything into consideration they are fairly well holding their own and will continue to do so. In my opinion the most important credit problem facing us in 1954 is the manner in which we all can increase credit sales. It is going to take the thought and determination of every credit granter to devise ways and means of enticing more people who are worthy of credit to become your customer and to win back those that have let their account become inactive due to one reason or another. —R. E. Cox, president, R. E. Cox & Company, Fort Worth, Texas.

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In the instalment furniture business we have a problem facing us because we have so many intangibles. 1. What will be the money situation in 1954? Will money be easy and bank rates low or will money be hard, with higher interest rates? 2. What will be the business economy in 1954? Will the farmers' income be raised in 1954 or will it be lowered? 3. Will factory pay rolls increase or will they be cut down? From all that I can find out the answers seem to be as follows: 1. Money easy? Uncertain. Interest rates lower? Uncertain. 2. Farmers' income increased by Government subsidies? Don't know. 3. Pay rolls decreased and overtime eliminated? Perhaps. With these questions before us, there is still a competitive angle that is important to the instalment furniture dealer who carries his own accounts. Can he afford to increase his stretch of terms in view of the uncertainty of future conditions? If he could increase that stretch he would be better off financially because of carrying charges. On the other hand, if he increases that stretch, is he going to be confronted with terrific credit losses due to the eonomic conditions as above outlined? I do not know the answer to all these questions. I believe the firm that can afford to take the gamble should increase the stretch of terms, especially on hard merchandise. Economic factors begin to show up in our line of business. We find there is a definite shifting from open accounts to instalment accounts. We feel that unless we gamble on the stretch of accounts we will definitely lose business if we try to hold the line on shorter terms.—A. Davidson, President, Davidson-Boutell Company, Minneapolis, Minnesota.

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In my estimation, the toughest job that the retail credit men of the country are going to have in 1954 is that of salesmen. They have had it right along, but I am sure a number of them have forgotten about it. For the past several years almost anybody could have sat back and taken every risk that was offered, and their losses would not have been too bad. However, in 1954 with savings high and employment somewhat uncertain in some lines, there are going to be a lot of people who can afford to buy, but they are not going to buy! So, the credit man is going to have to make the sale because the regular salesman cannot make it under these conditions. Let us get out our old selling rules, which starts with 'southern hospitality.' Be sure that our speech, appearance, offices, and everything else makes the customer feel comfortable, relaxed, and want to do business with people like us, because it is going to take a lot of doing to hold our volume up during 1954!—Myron Everts, President, Arthur A Everts Co., Dallas, Texas.

With the return of a buyer's market, it seems to me a danger appears in the tendency to sell credit terms rather than merchandise. More than ever before, I am convinced the coming year will demonstrate the soundness of time-proven credit policies: 1. Proper investigation. 2. Adequate down payment. 3. Realistic repayment terms. 4. Vigorous, intelligent collection procedures.—Sheridan P. Gallagher, Manager, Centralia Branch, The National Bank of Commerce, Centralia, Washington.

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There are at least three important retail credit problems confronting us in 1954: 1. Sound extension of credit. 2. Proper follow-up of the collection work. 3. Promotion of credit sales. Our credit policy should be influenced by business conditions, competition, individual store policy, customer requirements, day-to-day experience, and other factors. Approximately fifty per cent of our total business is done through credit sales and it is very important that we take no action which would tend to decrease the proportion of these sales to the total sales.—William J. Hamilton, Treasurer, The Shepard Company, Providence, Rhode Island.

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I have given a good deal of thought to our credit problems for the coming year, and I think our major effort, second of course to collecting the money, will be to increase the selling ability within the credit department. To explain this, I mean the ability of the credit manager, through tact and persuasion, to sell the best possible terms to a customer. I mean the cashier, through a smile and friendly greeting, to sell the personality of the store to the customer. I mean by accuracy and prompt handling of complaints and paper work, to sell the efficiency of the store to the customer. I mean by proper explanations and patience to sell our customers on the importance to them of paying terms as agreed. I mean by the alertness of the entire credit department in handling accounts and customers to sense a potential new sale and pass this information to the sales department for further development. The coming year, I believe, will require an emphasis on selling; not only moving merchandise, but selling the store with the creation of good will at every contact with the customer. In the credit department there is probably more direct and indirect contact than at any other point.—Rawson Haverty, Vice-President and Treasurer, Haverty Furniture Companies, Inc., Atlanta, Georgia.

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The most important retail credit problem confronting us in 1954 is one of our own making. It is a tendency on the part of all retailers today to over-extend credit in an effort to increase, or at least to maintain, the present rate of selling. Budget plans without down payment, and 'add-on' plans, which create revolving credit without a definite liquidation date, are symptoms of over-extension. Our experience has been that such methods do not make friends or influence customers. Ordinarily we lose both our money and our customer. It has never been human nature to love one's creditors. The tendency is to avoid them and buy for cash elsewhere. The second problem confronting us in 1954 is not of our own making but perhaps even more serious. Today the ratio of collections to outstanding accounts is diminishing and collections becoming more difficult. This is, perhaps, another reason why what I have called Problem Number One is so important. The surest way to bring on a recession in this country, or perhaps even a serious depression, is to continue encouraging consumers to spend next year's income this year. Credit is a valuable function in business, but let us use it sanely and with sound judgment.—Allen W. Hinkel, President, Hinkel's, Wichita, Kansas.

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From the retailer's standpoint, 1954 will be a year in which careful screening of credit risks will be all important. There should be no feeling of a curtailment of credit, because customers of good standing have come to accept credit as an economic necessity and a factor which enters into their own personal planning. Marginal cases will require careful analysis

and a definite understanding between both parties to a credit transaction will be necessary. The wise use of credit will go far to alleviate any unsatisfactory economic conditions which may appear.—Bernard S. Horne, Vice-President and Treasurer, Joseph Horne Co., Pittsburgh, Pennsylvania.

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Our credit manager, John I. Dale, and I, believe that at least one of the important retail credit problems for the coming year will be to maintain the volume without expanding terms beyond the present maximum and to maintain present collection levels without increasing collection costs.—R. A. Jarnagin, President, S. H. George & Sons, Knoxville, Tennessee.

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The problem of 'skips' will very likely be our greatest problem. We have already noticed with mild alarm, quite an increase in the number of 'skips' this year as compared with previous years. It is my opinion that this condition will grow more severe for sometime to come due to re-location of industry and the resultant change of employment. Even in our area, where industry is quite small, a number of our small industries have either closed down completely, thus necessitating a change of employment which often requires the person moving, and in several instances, the small industries have actually moved to other locations necessitating this same change. In addition, there seems to be some unrest among the people with whom I come in contact. Just what brings this about, I do not know but I think that perhaps, it is the uncertainty in their minds concerning the future. I, for one, feel that many 'lush' jobs enjoyed by a great many people in the past, are going to be a thing of the past and it is going to take a little while for these people to readjust themselves to a little bit lower mode of living, which, of course, is going to call for a number of changes trying to better themselves from one job to another.—Oliver A. Jenkins, President, Duval Jewelry Company, Jacksonville, Florida.

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During the year 1953 a definite adjustment has occurred in the durable goods portion of the retail merchandising field. Supply in certain commodities has tended to exceed demand resulting in a distressed situation. This has brought about a high degree of competition resulting in lowering of prices by trade-in allowances and the like. While production will undoubtedly be geared to a little lower level than in 1953, the year 1954 should continue to reflect this intensive competition, as an ample supply of these products will no doubt be available. Accordingly we may say that retail installment credit will, no doubt, return to a more normal basis requiring proper analysis of ability to pay and the exposure in certain industries to an adjustment in employment and the elimination of overtime pay. It is therefore felt that the year 1954 will be a year of more caution and care resulting in the exercise of more considered judgment on each individual transaction.—J. F. Krebs, Vice President, Bank of St. Louis, St. Louis, Missouri.

★ ★ ★

There are two important problems facing us for 1954, and they are as follows: 1. To maintain, strengthen and if possible increase the number of charge account or credit customers. 2. To constantly analyze and review all accounts and to actively pursue their collection and keeping such accounts active and good. More than ever it will be necessary to publicize the advantage of a charge account and the need for credit, thus encouraging the use of credit in your particular establishment. A careful survey of each account will be necessary in the coming year and perseverance will be required in maintaining all accounts and in keeping up your collection rates. All in all, an aggressive policy is still necessary for the securing of accounts and a careful analytical review of all accounts will be required for 1954. Complacency must be replaced by intensive work. The future holds no fear for the aggressive organization. We look forward to a prosperous 1954. We also look forward to more work.—L. Landwirth, President, Klein's, Peoria, Illinois.

★ ★ ★

The credit division of the store is always important but it seems to me that it is going to be more important next year than ever. All indices point toward the hard fight for business in 1954. The credit office has in its power great potentiality to help in this struggle by promoting its store's business in being, in truth, a credit-sales office. During a difficult business period, collection difficulties always arise

but by judicious operation and close scrutiny of credits the credit manager can accomplish wonders in the protection of the store's working capital. I am not pessimistic about 1954 and I think good stores will operate reasonably well but it is going to take hard work and close coordination on the part of every division to make any sort of a satisfactory showing.—Frank M. Mayfield, President, Scruggs-Vandervoort-Barney, Inc., St. Louis, Missouri.

★ ★ ★

The retail credit problem confronting us in 1954 is the same one that is with us at all times. That is to sell good credit risks all we possibly can and avoid those that are bad risks. This situation will probably be aggravated in 1954 in view of the fact that a great many marginal credit risks will become undesirable due to the fact that they are likely to continue purchasing beyond their ability to pay. The good credit man has to guard against over-extension of these people but we are opposed to any tightening of credit with good people. I am one of those who believes that American prosperity is largely dependent upon the wise extension of credit. I believe Americans are the best dressed and the best furnished and fed people on earth because of a wise credit policy that has been pursued throughout our history. I see no need of reversing this at this time and in our own store we shall continue to extend credit to every deserving credit risk and to turn down those that are in the habit of failing to meet their obligations.—Wade G. McCargo, President, H. V. Baldwin & Co., Inc., Richmond, Virginia.

★ ★ ★

We have no quarrel whatever with the idea that some refinement in credit policies is needed. With the disappearance of the easy sale there has been a hue and cry across the land for lower down payments, extended terms and a stretching out for substandard risks which can lead only to collection problems, repossessions and everlasting ill will for everybody. It, and advertisements of nonstandard terms, give encouragement to those who sponsor permanent government control of sales credit. In the shifting credit scene when selling becomes more difficult it is the very time when sales credit must prove itself as a facility for sales. No eternal verity of credit is involved by saying that instead of tight credit the need is for a constructive level of risk taking: And while, again, 'mere words' in experienced hands they express an attitude that can mean the difference between losing sales and transforming average and marginal sales into good ones.—Paul M. Millians, Vice President, Commercial Credit Company, Baltimore, Maryland.

★ ★ ★

The excellent work which credit managers have done to perfect the means of making available the pertinent facts about the credit operations of their companies will be very vital in

(Turn to "Credit Problems," page 31.)

CREDIT DEPARTMENT *Letters*

LEONARD BERRY

THE PRINCIPAL objective of credit department activity in January should be *collections.* An all-out effort to get past-due accounts paid this month is important for many reasons.

It is entirely likely that during December, with its frantic days and pressure on personnel to maintain good credit service, collection follow-up might have been curtailed. That is unfortunate, but in many cases unavoidable. All the more reason for utilizing the relatively quiet days of January to make up for lost effort. Then too, for most firms the end of January marks the end of the fiscal year and "charge-off" time. It is unnecessary to stress the advantages of securing payment of those past-due accounts that otherwise would be eligible for transfer to Profit and Loss.

All accounts showing a past-due balance of 120 days or more should be given attention now. And for those five or six months in arrears, concentrated effort is indicated. All our letter illustrations this month are offered to assist members in this collection procedure.

Collection correspondents face a particular challenge in this delicate area of human relations and human understanding. It is important for them to keep in mind the fact that they are dealing with people, not merely troublesome accounts. Of course, they must try hard to get the money—that is what they were hired for—but at the same time they must, insofar as possible, keep the good will of the customer. This is not an easy task.

The key to successful collection work is steady persistency and utilization of "selling" appeals. Keep after these recalcitrant debtors with courteous but firm reminders of their obligations. Point out the benefits of payment and the advantages of maintaining a clean credit record. Follow each unfulfilled promise for payment exactly on the date specified. Try to select collection appeals you feel will be most effective with each particular debtor.

Many collection correspondents find it advantageous to include the N.R.C.A. booklet, "The Good Things of Life—On Credit," with collection letters. Enclosure of this inexpensive little booklet is particularly effective with the collection insert, illustration No. 5. It explains the magic of credit buying power, the value of good personal credit and the advantages of prompt payment. Encouragement is also given to the customer involved in heavy credit obligations to call on the credit managers of the stores and firms to which money is owed and frankly talk matters over. You may obtain a free copy of this booklet by writing to the National Office.

All our illustrations this month are collection communications prepared specifically to be used by our members in line with points made in the commentary.

This Month's Illustrations →

Illustration No. 1. This collection letter is designed for use after a series of *impersonal* collection reminders or stickers have been employed without result. Also, the letter could be used in that all-important time in the life of the account when every effort should be made to educate the new credit customer in prompt payment habits. The letter is straightforward. It clearly but courteously points out the necessity of prompt payment of accounts if business relations are to be mutually satisfactory.

Illustration No. 2. When two successive payments have been missed on an instalment account, particularly if earlier payments have been made promptly, the time has come to step-up the collection procedure. This letter warns the debtor in a friendly manner that the delay in payment is becoming a source of real concern. Should this letter bring no result it should be followed by a telephone call or personal visit by the outside collector.

Illustration No. 3. This letter could be used on both monthly charge accounts and instalment accounts. It employs the "protect your credit standing" appeal. The letter is short and to the point. It should be used after more mild and conciliatory collection appeals have not succeeded in bringing about payment.

Illustration No. 4. This letter is designed for the customer of limited responsibility and perhaps with previous slow payment record, who has ignored routine reminders and who has made no effort to come in or telephone. There comes a time with a few customers when rather stern procedures are necessary. Disciplining debtors who habitually do not respond to mild and considerate appeals is part of necessary credit education. With slight adaptation this letter could be used for instalment accounts in similar condition.

Illustration No. 5. This is a printed collection insert prepared by the National Retail Credit Association for the use of members. It should be sent to those seriously past-due accounts bordering on possible "charge-off." The potent "credit bureau" appeal is stressed. Most people are anxious to protect their credit record and the suggestion that the bureau will be notified of the default will often bring about payment when other approaches fail. This insert has the advantage of being usable by professional credit granters as well as by merchants. In fact, it is recommended in our Physicians and Dentists Credit and Collection Manual.

① January 15, 1954

Mrs. John C. Customer
000 Main Street
Your City, Your State

Dear Mrs. Customer:

You won't mind if we are perfectly frank, will you?

Credit is gladly offered by this store as a shopping convenience. We believe that credit makes shopping more pleasant and comfortable.

Also, we believe that prompt payment is essential both for the customer and for us. Payments that are delayed even for a short time affect the customer's credit standing. For our part, prompt payment is necessary in order that we might maintain a sound business.

It is doubly important that you now send your check for $00.00 representing your past-due account with us.

Cordially yours,

MANAGER OF CREDIT SALES

January 15, 1954 ②

Mrs. John C. Customer
000 Main Street
Your City, Your State

Dear Mrs. Customer:

You were doing so splendidly on your instalment account with us. We had every hope that you would complete your payments with a perfect score.

Now, however, you have allowed two payments to become in arrears, and, what is more a matter of concern to us, you have not been in to explain the situation.

You know how those traffic lights turn to amber just before the red comes on? That is the position of your account now. You still have a margin of safety, but you will have to act real fast.

We need your remittance of $00.00 right away. Don't allow the "danger" signal to appear on your account.

Sincerely yours,

MANAGER BUDGET PLAN DEPARTMENT

We have YOUR NAME in this "Who's Who"

⑤

As a member of the Credit Bureau we are called upon to report, at frequent intervals, the credit standing of our customers. This report is available to every merchant or professional man who is a member of the Credit Bureau.

Your account with us at the present time is PAST DUE. To maintain a good credit record, you should make a payment NOW or arrange for an early settlement.

Name ______________

Owed to ______________

Balance $________ Past Due $________

Date ______________

Guard Your Credit as a Sacred Trust

③ January 15, 1954

Mrs. John C. Customer
000 Main Street
Your City, Your State

Dear Mrs. Customer:

In a spirit of fairness which I am sure you will wish to reciprocate, this further opportunity is given you to protect your credit standing.

As you probably know, we are required to report to our Credit Bureau, all accounts remaining unpaid after a certain length of time.

Your account shows an unpaid balance of $00.00. Surely you will prefer to pay this account now, rather than have it recorded in the Bureau.

Please send your check today, and all will be well.

Sincerely yours,

MANAGER OF CREDIT SALES

January 15, 1954

Mrs. John C. Customer ④
000 Main Street
Your City, Your State

Dear Mrs. Customer:

Most collection letters are far too long, that is why this one will be brief.

It is our feeling that you are a sincere, straightforward kind of person. We hope we are right because we want to put the matter frankly and simply.

Please tell us when you will be able to pay your bill with us. The amount due is $00.00.

Thanks.

Sincerely yours,

MANAGER OF CREDIT SALES

CREDIT FLASHES

Hospital and Professional Group Transcript

The proceedings of the Hospital and Professional Group Sessions held at the International Consumer Credit Conference at New Orleans, La., June 22-25, 1953, were tape recorded. Transcripts of the recording of the addresses made to the group and the open forum discussions that followed are available at the nominal price of $2.00 per copy.

Among the addresses delivered during the three afternoon sessions and included in the transcript was: *"Professional Collection Errors"* by Mrs. Jessie Irvin, Holt-Krock Clinic, Fort Smith, Arkansas. Also, the *Discussion Forum* following, of which the Moderator was Mrs. Lois McIver, The Gaston Hospital, Dallas, Texas. Other addresses were: *"Report on Associated Credit Bureaus of America Medical Survey,"* Carl H. Roewe, Associated Credit Bureaus of America, St. Louis, Mo.; *"Credit and Collections,"* R. L. Ingraham, University Hospital, University of North Carolina, Chapel Hill, N. C.; and *"Timely Tips on Collection Technique,"* Howard G. Chilton, Credit Bureau of Greater Fort Worth, Fort Worth, Texas.

Every credit granter employed in hospitals, clinics, medical and dental offices should possess a copy of this transcript. The material contained therein is an important contribution to better understanding of the special problems, and their solutions, involved in handling professional credit and collection matters.

Order your copy today from A. J. Perrez, Jr., 501 Main Street West, Rochester 8, New York. Check should accompany your order and be made payable to the Rochester General Hospital. There are still some transcripts of the 1952 Washington Conference available at the same price of $2.00 a copy.

R. J. Shapiro Purchases Wilson's, Duluth

One of the oldest firms in Duluth, Minn., C. Z. Wilson Co., has been purchased by Reuben J. Shapiro, Credit Manager of First Street Store of the same city for the past 17 years. Mr. Shapiro, native Duluthian, has been active in fraternal, Boy Scout and other organizations for a number of years. The Wilson firm manufactures nurses' uniforms, service garments for physicians, dentists, beauticians, druggists, etc., and serves the local area along with cities and towns in 24 states of the nation. Mr. Shapiro is a past president of District Six of the N.R.C.A.

Consumer Credit for October

Consumer instalment credit outstanding amounted to an estimated 21,486 million dollars at the end of October, 139 million above the previous month-end. The October increase compares with gains of 521 million dollars in the same month of 1952, 37 million in 1951, and 97 million in 1950. An increase of 95 million dollars in charge accounts outstanding, largely seasonal in nature, was offset only in part by a decrease in service credit. The total short- and intermediate-term consumer credit outstanding at the end of October amounted to an estimated 28,166 million dollars.—*Federal Reserve Board.*

Coming District Meetings

District One (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont and Quebec, New Brunswick, Nova Scotia and Prince Edward Island, Canada) will hold its annual meeting at the New Ocean House, Swampscott, Massachusetts, May 16, 17, and 18, 1954.

District Two (New York and New Jersey) and **District Twelve** (Delaware, District of Columbia, Maryland, Pennsylvania, Virginia and West Virginia) will hold a joint annual meeting at the Claridge Hotel, Atlantic City, New Jersey, March 7, 8, and 9, 1954.

District Three (Florida, Georgia, North Carolina and South Carolina) and **District Four** (Alabama, Louisiana, Mississippi and Tennessee) will hold a joint annual meeting at the Hotel Charlotte, Charlotte, North Carolina, April 4, 5, 6, and 7, 1954.

District Five (Kentucky, Michigan, Ohio and Ontario, Canada) and **District Thirteen** (Illinois, Indiana and Wisconsin, except Superior) will hold a joint annual meeting in Chicago, Illinois, February 21, 22 and 23, 1954.

District Six (Iowa, Minnesota, Nebraska, North Dakota, South Dakota, Superior, Wisconsin and Manitoba, Canada) will hold its annual meeting at the St. Paul Hotel, St. Paul, Minnesota, May 9, 10, and 11, 1954.

District Seven (Arkansas, Kansas, Missouri and Oklahoma) will hold its annual meeting at the Goldman Hotel, Fort Smith, Arkansas, March 14, 15, and 16, 1954.

District Eight (Texas) will hold its annual meeting in Dallas, Texas, May 24, 25, and 26, 1954.

District Nine (Colorado, New Mexico, Utah and Wyoming) will hold its annual meeting at the Cosmopolitan Hotel, Denver, Colorado, April 25, 26, and 27, 1954.

District Ten (Alaska, Idaho, Montana, Oregon, Washington, Alberta, British Columbia and Saskatchewan, Canada) and **District Eleven** (Arizona, California, Nevada and Hawaii) will hold a joint annual meeting in conjunction with the 40th Annual International Consumer Credit Conference of the National Retail Credit Association, The Fairmont Hotel and The Mark Hopkins Hotel, San Francisco, California, July 19, 20, 21, and 22, 1954.

Position Wanted

Finance position. Ten years' experience as manager, auditor and supervisor of large finance company. Responsible for purchase of accounts receivable and instalment sales paper. Age 36; married and has a family. Excellent references. Salary open. Will locate anywhere. Box 1541, The CREDIT WORLD.

Credit Careers

August C. Wehl

AUGUST C. WEHL, Gimbel Brothers, Milwaukee, Wisconsin, was honored at a banquet held recently in that city to signalize his retirement which became effective December 31, 1953. Mr. Wehl has spent forty-two years in retail credit work, thirty-two of them with Gimbel Brothers.

Several speakers reviewed the valuable contributions made by Mr. Wehl to the retail credit profession. As a token of the affection in which he is held by his fellow credit granters in Milwaukee, he was presented with a suitably engraved solid gold tie bar on which appears the emblem of the National Retail Credit Association.

Mr. Wehl is past-president of the Milwaukee Retail Credit Association and has been a director for fourteen years. He is past-president of District Thirteen of the National Retail Credit Association; past director of the National Retail Credit Association, and former member of the Executive Committee. He is also past-president of the Wisconsin Retail Credit Association; member of the Legislative Committee, Association of Commerce; and chairman of the Credit Bureau Committee 1931, 1932, and 1953.

Mr. Wehl responded by citing the evolution of credit he has witnessed in forty-two years. He closed his address by saying, "Credit today is just as much a part of retail business as is cash money, or a check. Every person who has sufficient capital, or income to pay bills, and has a reputation for honesty and fair dealing, knows that he is entitled to a charge account, so in the minds of the buying public today, a charge account is no longer a privilege or favor, it is merely a convenient way to shop."

Mr. Wehl's many friends throughout the country will wish him many years of enjoyment of his well-earned leisure and will remember him for his substantial contribution to the field of retail credit management.

Robert H. Clifton Foils Holdup

Robert H. Clifton, Controller, Charles Brown and Sons, San Francisco, Calif., made it obvious recently that robbing the store is going to be a risky operation as long as he is around. The would-be robber walked to the mezzanine floor, produced a gun, and then ordered the cashier to hand over $171.00. In return he offered her a "check" for that amount. The cashier gave him the money and he fled, his gun still in hand, but Mr. Clifton, who had witnessed the holdup, pursued him into an alley. There he caught up with the robber, knocked him to the pavement and disarmed him. A store guard then handcuffed the robber and notified police. The robber was booked at the city prison on suspicion of robbery and violation of the gun law. He had been released from Folsom prison in 1949 after serving 14 years on a kidnaping conviction. Mr. Clifton has been active in local association affairs for many years and is a member of the Quarter Century Club and an honorary life member of the N.R.C.A.

Credit Problems in 1954

You will find great interest and profit in reading the opinions of outstanding store and firm principals and other executives concerning the problems that face us in 1954. These appear on pages 16-17, and 31. After you have read them we suggest that you pass the issue along to other executive officers in your firm. Also, we suggest that these opinions and forecasts be discussed at local credit association meetings. Should you need an additional copy of this issue of The CREDIT WORLD write to the National Office and one will be sent to you.

Organize a Credit School Now

Reservations for retail credit schools sponsored by the N.R.C.A. in cooperation with the ACBofA and conducted by Sterling S. Speake for the Spring and Summer months are now being received by the National office. Local retail credit associations and credit bureaus wishing to sponsor such schools for their communities should act quickly, as many schools are now being definitely arranged.

Glowing reports are coming to us concerning the success of these credit schools. Many credit executives and bureau managers are expressing themselves as being delighted at the beneficial results of the visit of Sterling S. Speake to their communities.

For full details and for information concerning open dates please complete and mail this coupon today.

National Retail Credit Association
375 Jackson Avenue
St. Louis 5, Missouri

We would like to have a Retail Credit School conducted in our city by Mr. Speake. Please give us date the Course can be scheduled for us. If possible, we prefer it to be scheduled during the month of ________________ or month of ____________
(1st choice) (2nd choice)

Name ____

Address ____

City ______________________ State ________________

The Credit Forum

Sales Promotion—Direct Mail

E. E. PADDON
Lammert Furniture Company
St. Louis, Missouri

DURING the past 20 years business methods have changed considerably, but in no phase of business has the change been so remarkable or so drastic as you find in the average credit department. We have learned many things. We have learned, in particular, that we have a credit educational job to do with our customer, and with the exception of the contact when we open the charge account, our work in building the kind of a customer we hope to have must be done by mail.

In the average business, with the lone exception of the salesman, the credit man is the only contact actually between the corporation and the customer, and this contact originates in the taking of the credit application. But, you ask, what does this have to do with direct mail? Of course I do not have to tell you how important it is to acknowledge each application for credit with a friendly letter expressing appreciation for their confidence in you and the merchandise you sell.

In taking the credit application, you are laying the foundation for future years of business relationship. You are obtaining the necessary information to establish the soundness of the credit of your customer; and for a successful and complete direct mail promotion you can obtain such other information as may be of inestimable value to you in the months ahead. One of our leading department stores writes a letter over the signature of their president on the anniversary of the opening of the account to say "thank you" for the friendship the charge account has created.

There was a furniture store credit department that obtained the wedding date and the birthdays of both the husband and wife when taking the credit application. This was not much of a job, but the information in the hands of a direct mail artist continues to produce additional sales for anniversary gifts and birthday gifts for both husband and wife. Many times the question has been asked, "How did you find out that this date is our anniversary?" Not very clever actually, but when your customer thinks it clever, you have scored again in the good graces of your customer.

The collection letter as a sales builder has been the subject of many good articles by leading credit executives of our day, but I shall pass over this phase of the direct mail approach with the single admonition: review your collection letters. Are they courteous? Are they friendly? Are they building good will? Or are they driving your customers away?

In nearly every type of business today, installment credit has seemed to find its way. Quite naturally it has a way of increasing business and that is what we want more of. Each installment account is a good prospect for a 30-day charge account, either at the time the budget account is arranged, or most assuredly when the final payment is made. Of course, you return the customer's contract, stamped "Paid," and most likely you write a letter of thanks, but do you tell them that you have opened a thirty-day charge account for their convenience? Do you tell them of some special promotion in which they would be interested that is now in progress?

In the same manner, do you look for budget accounts in your ever growing list of 30-day charge customers? When featuring higher priced units or various groupings that might tax their budgeted finances on a 30-day charge, do you make sure that they *know* that you sell on budget terms and how easily they can enjoy some of the greater comforts by spreading payments over a few months? *Do you?* Do you have a systematic follow-up on your budget accounts as the payments reduce the principal of your customer's account? *Do you?* I can think of no greater monotony in life than being the kind of credit man some people, even some employers as well as some customers, expect him to be. *Can you?*

When three or more payments have been made on a twelve-month account, it is good business to consider the needs of your customer that might be added to their account without the necessity of a down payment, or even the increase of the monthly payment. This is about the strongest sales approach you will find for the building of additional sales and the most productive. In the same manner, accounts financed through a period of 24 months may be safely solicited for additional business when six or more payments have been made without the fear of overloading your customer with debt.

Developing new accounts is, or should be, the pet hobby of the credit executive. In each type of business the approach may be slightly different, but the principle is the same.

Cultivating New Business

We all have cash sales and C.O.D. sales and these customers know our store and they like our merchandise, and we do so little to cultivate their business. Sometime select a few such sales of the larger amounts, have an itemized, receipted invoice made up and mail it to those few customers with a courteous "thank you" note; tell them that the receipted invoice is valuable to them for their insurance records, and extend an invitation to them to open a charge account with you.

Club rosters, with emphasis on the exclusive clubs, are a valuable source from which to draw new customers. From the daily newspapers you will find prospective new charge accounts in the lists of recent weddings, even in the list of announced engagements. The lists of new homes under construction provide a challenge to every credit manager. If they are not already charge customers, they should be. And, of course, the newcomers to your city prove a valuable field from which to solicit

new accounts, but unless you have accounts with every local family you can profitably serve, you do not go far enough if you look only to the newcomers.

In setting up a direct mail promotion it is essential to know not only the name of your customer, but where he lives in relation to your store. And too, we should know whether he is in the high income bracket, the middle income bracket, or in the lower income bracket.

If, in your city, postal zones have been set up, perhaps a mapping of your customers within these zones will give you a positive picture. This mapping is not difficult, but it will be quite a boon in your endeavor to pinpoint your customers.

I believe that you will readily agree that the more selective your mailing list is, the greater will be the response to your solicitation. Especially will this be true if you sell merchandise which may be acceptable to each class.

By knowing just where your customers live, you are in a position to more actively and pointedly build sales in a particular neighborhood. It may also be a guide for expansion if you plan branch store expansion.

I read an interesting article in the April 1953 Credit World by Leonard Berry, in which he pointed out the effectiveness of mailing a statement to the customer whose account is balanced, with a positive message on it. I do not question the effectiveness of this method, but it still costs three cents to mail such a statement, and not much more to send a letter that is just a little more personal and certainly can contain a more positive sales appeal. I believe that instead of reviving inactive accounts, greater effort should be made to keep those accounts active by selling them in each department in your store.

Just as you look to your credit bureau to supply credit reports on prospective customers as new charge customers, so you must look to your advertising department and the buyer or manager of each department of your store for the choice of merchandise to be offered for sale and the preparation of advertising literature to make each offering as effective as possible.

There are many little "gimmicks" that you can use to build good will. One we are using is the refund of overcharges on cash sales. It is surprising how pleased a customer can be when receiving a check in refund of an overcharge. It pays dividends.

By all means, maintain the dignity of your profession and respond to the challenging times in which we live with courage and determination. ★★★

Personal Letters

FRANK W. PRICE
Jean Hall
Seattle, Washington

A LARGE percentage of the letters mailed by our credit departments are, by necessity, form letters when large numbers of accounts of a similar nature require dunning. It should be remembered, however, that the main objective of a letter is to secure payment of the account or to elicit a reply. When a reply is received, the correspondence should then take on a personal character.

When a customer receives a form letter pertaining to a past-due account, he is much less inclined to give it his careful attention. The reader is more interested in the message if he feels it is written directly to him. He is then more likely to believe the situation is really serious. But the use of personal letters is an expensive process and it does not always justify its high cost. When to discontinue use of multigraphed or printed reminders and send personal letters is a debatable question.

The object of most collection letters is to secure action, and the plan of the letter is the vital factor in securing this action. The letter which is rightly planned leads the reader along a path which has been prepared in advance to conduct him to the desired goal.

The letter which is planned is concise. The letter which is not planned, rambles and wastes the time of its reader. The well-planned letter is courteous and increases the good will of the reader for the firm which wrote it. The most ordinary letter, however brief, will produce a good impression or a poor one, depending on its plan.

Collection Letter an Important Instrument

The collection letter is the most important and most frequently used collection instrument. In the hands of an experienced and capable correspondent, the collection letter is a flexible device that is adaptable to any past-due situation with the exception of those accounts which require legal action.

It is not possible to reduce the art of collection letter writing to a simple formula that would be universally applicable to all customers. A fundamental principle of collection letter writing is that the letter should be adapted to the personality and temperament of the customer. A collection appeal that obtains an immediate response from one customer may leave another completely "cold"; a stunt letter that is successful with "regular-fellow" customers may have an adverse effect upon a more sober type of customer.

There are, however, some rules of collection letter writing that will apply to any customer, regardless of his type or personality. Here are a few:

1. *Use personalized salutations.* A customer, even one whose account is past due, likes to be greeted by name. The salutation "Dear Mr. Jones" will draw a more favorable reaction from Mr. Jones than the impersonal "Dear Sir."

2. *Avoid dull opening sentences in the body of the letter.* The usual business letter is read rapidly or only glanced through. The eye runs down the page catching at the outstanding words and phrases, looking for a key to the meaning of the whole.

3. *Make your letter understood.* The first requirement of every letter is clearness. There must not be a moment's doubt as to its meaning. A letter that is thoroughly clear at first reading will save mistakes, delays, and the writing of other letters.

4. *Be concise.* A customer whose account is past due will stay with a collection letter for only a moment or two. A long-winded collection letter will outlast his patience. Therefore, the collection letter should say what it has to say in as few words as the presentation of the message will permit.

5. *Be complete.* Completeness is a requisite to be borne carefully in mind. Do not omit necessary statements or forget to say all you intend to say.

6. *Be correct.* Spelling, punctuation, grammar, and sentence construction, and the appearance of the letter should preserve the writer's dignity to make the letter a worthy representative of his firm.

7. *Be courteous.* Courtesy should stand out emphatically in your letter considering how rapidly it is read. Use definite words that show your desire to be of service or your consideration for the reader's position. No matter how irritating the letter received may be, write a courteous reply.

8. *Avoid irritating expressions.* The customer whose account is past due is on the defensive. He knows that he has broken a contract and is anticipating a reprimand from the creditor. Verbal thorns in a collection letter will provoke an antagonistic response and leave the customer bristling with irritation.

9. *Use twentieth century English.* Avoid use of stereotyped phrases and dull, tiresome expressions.

10. *Do not preach.* A collection letter is not a sermon. The average man has been nagged all of his life through a complete cycle of mother to wife to daughter. He does not want to hear the same preachments from his creditors. Such an approach by the collection letter writer merely strengthens the customer's payment resistance by adding resentment.

11. *Use a friendly complimentary close.* Make the reader's last impression a pleasant one. The complimentary close should not be a pointless formality. Instead of winding up your letter with "Yours truly," "Yours very truly," or "Very truly yours," try "Cordially yours," "Cordially," "Sincerely yours," or "Sincerely."

12. *Make it convenient for the customer to take action.* A postage-free reply envelope enclosed with the collection letter is one simple device that may prevent further procrastination on the part of the customer.

Collection Letter Must Make an Effective Appeal

In order to overcome oversight, indifference, procrastination, laziness, and even deliberate chiseling, on the part of customers whose accounts are past due, the collection letter must make an effective appeal to a strong "paying" motive. The appeals for payment can be boiled down to the following:

1. *The oversight appeal.* When the account is past due for only a short time, the usual assumption is that the customer has merely overlooked paying his bill. Thus reminder letters mention the probability that the account has been overlooked and express confidence in the customer's attention to it.

2. *The explanation appeal.* If the reminder letter fails to draw a response from the customer, the next step in the collection letter sequence is to persuade the customer to give an excuse or reason why his account is past due. Therefore, in the collection letters following the initial reminders, the collector should ask the customer why payment is not being made in accordance with terms. The letter can also intimate that, on the basis of the customer's explanation, it may be possible to work out a convenient payment arrangement. This approach not only increases the probability of obtaining payment, it also places the creditor in the favorable position of being understanding about the customer's difficulties.

3. *The cooperation appeal.* Following the explanation appeal, the remaining letters in the collection sequence will make use of other definite appeals in an effort to induce the customer to make payment. The mildest of these appeals is the appeal for cooperation. If the request for cooperation is courteous and the customer has a sense of sportsmanship, the appeal will be highly successful.

4. *The fair-play appeal.* The letter that uses the fair-play appeal emphasizes the fact that goods were made available on liberal credit terms and that every courtesy has been shown in requesting attention to the account. This approach makes it possible to impress upon the customer the contrast between the creditor's action and his. The use of the fair-play appeal makes it difficult for the customer to remain silent, even if he is short of funds, especially if the letter includes a request for an explanation why the account is past due.

5. *The pride appeal.* The appeals to cooperation and fair play will be wasted on a customer who is self-centered; he is not interested in the effects of unpaid bills upon the business of his creditor. To get action from him, the appeal must touch his self-interest. The customer is usually reminded of the good credit reputation he has established by meeting his past obligations. Then the letter proceeds to express the creditor's interest in helping the customer maintain a credit record that has been built through conscientious effort on the customer's part.

6. *The self-interest appeal.* If the pride appeal does not work, a direct appeal to the debtor's self-interest is in order. The appeal to the customer's self-interest usually has two objectives: to point out the value of the credit privilege to him and to convince him that further delay will impair his right to its advantages.

7. *The fear appeal.* There are always some customers who are immune to persuasion. They must be forced to pay their bills. This does not mean that the collection letter must contain harsh words. Even though the appeal to fear marks the final stage of the collection series, there is no justification for a departure from courtesy. The appeal to fear usually forms the basis of the last two letters in the collection sequence. The first fear-appeal letter mentions the consequences of collection enforcement. But this letter does not mention the specific date upon which definite action will begin.

First Fear Appeal Letter Urgent

Although the tone of the first fear-appeal letter is urgent, it still leaves the way open for one more appeal. No specific time limit is set for payment. This provides a justification for a second and stronger use of the fear incentive. The second fear-appeal letter is the final unit of the collection series. It sets a specific date as the deadline for payment of the account, immediately after which action will be taken if the bill remains unpaid. The letter should leave no doubt in the customer's mind that collection will be enforced without further notice unless he takes immediate action. However, there is no excuse for anything less than complete courtesy. ★★★

Items of Interest From the Nation's Capital

JOHN F. CLAGETT, Counsel, National Retail Credit Association, Washington, D.C.

Garnishment Bill: In his first message to members of N.R.C.A. (The Credit World, August page 32), President Henry C. Alexander said: "During the coming year the credit fraternity faces problems that perhaps will be the most critical that it has ever been forced to meet." Pointing to the government's efforts to balance the budget and "reduce to a very minimum the national spending," he stated that "the slack must be taken up by the consumer." One means toward high consumer spending and a sound credit structure, he pointed out, is "to strengthen the various credit groups from the local and state levels to the national."

The objective on the National level would most appropriately seem to include the enactment of the garnishment legislation now pending in Congress, known as the Curtis bill, H.R. 3602, since sound and effective collection machinery is indispensable to the over-all picture.

In carrying out President Alexander's message your Legislative Committee will need the utmost assistance from members to enable it to lay before Congress the strongest possible case. In this regard General Manager-Treasurer Lindley S. Crowder has set March 3 for a meeting of the Legislative Committee in Washington.

John L. Appears to Be for Business: There seemed to be a stir in the Washington atmosphere on Tuesday, December 15, 1953, when John L. Lewis quoted the National City Bank of New York and the Federal Reserve Board in an editorial dissertation on the present economic picture, appearing in *United Mine Workers Journal* for that date. Mr. Lewis' text, "Business Faces Challenge in New Year to Show What Free Enterprise Can Do," seemed to be lifted from President Alexander's message. Coming from John L. Lewis and at the beginning of the New Year, it seems worthy of considerable space.

Mr. Lewis said: "Forecasts of what we may expect in the economy during 1954 offer a rather more than usual conflict of opinion running the gamut from optimism to pessimism, but with a wide cross section favoring the middle ground. New words have been coined daily to describe the situation. Nobody with good judgment can buy the words 'depression' on one hand, or 'boom' on the other; those are extremes which are hardly possible in view of underlying factors." Continuing, he stated: "What is agreed on generally by all competent economic writers is this: The high war and postwar peak has been passed and we are now in transition toward a shift back toward a privte enterprise economy."

"There was noted," he said, "about midyear of 1953 a slackening in the pace of economic activity, according to the authoritative Federal Reserve Board. Sales, new orders and employment all were reduced moderately, yet the level remained high. Indeed, the FRB advises, gross national product, the total of all goods and services, for 1953 will total about 368 billion dollars, 5 per cent larger than in 1952 and a record in both dollar amount and physical volume. It's a trifle difficult to get panicky in the face of that fact!"

And, paying tribute to the consumer, he quoted with approval the following from an FRB survey: "'Expansion was based primarily on growth in private spending and was dominated by rising consumer expenditures.'" Buttressing his thesis with banking quotes, Mr. Lewis continued: "Other economic surveys by private authorities present a similar viewpoint which, in the words of the National City Bank, for example, 'form a consistent pattern of moderate decline but one which will leave activity in key industries high by any standards except those of 1953.'"

New Words: We learn more of Mr. Lewis' reference to "new words," a phrase he used in the first paragraph of his editorial quoted above, perhaps, the source of his reference—as we turned the pages of the *Monthly Review of the Fifth Federal Reserve District,* where an article, "Words From the Forecaster's Dictionary," opens with the following: "'Recession,' 'depression,' 'rolling adjustment,' 'shakedown,' 'downturn,' 'slump,' 'slide-off' —all of these expressions have been heard ever so often in recent months."

F. T. C. Approves Trade Practice Rule on Use of Word "Free": The Federal Trade Commission today approved a new trade practice rule with respect to the use of the word "free" in advertising and other commercial offers as descriptive of any article of merchandise or service. Previously approved "free" rules prohibited the designation of an article of merchandise as "free" if there were any conditions, even though fully disclosed, which had to be complied with in order to receive such article. However, under the new rule the word "free" can be used even though receipt of the article or service described is contingent on compliance with certain conditions, provided all such conditions are clearly and conspicuously disclosed. This means, a note to the rule explains, that the disclosure must be made in close conjunction with the word "free" wherever it first appears in each advertisement or offer.

"Federal Reserve Board Publications": That is a 4-page pamphlet which may be obtained from the Federal Reserve Board, Washington 25, D. C., listing periodic releases, annual and other reports, and reprints of a variety of important articles and statistical data. It may be useful to anyone desiring to select materials to build up a permanent library of consumer and other technical credit data. ***

It is with pleasure that we present the first appearance of four of the twelve panels named to serve on this Credit Clinic. As explained in the December CREDIT WORLD we propose to print the replies of four panels to specific questions each month. Members are urged to send questions to the National Office to be presented to panel members.

Banking and Finance

QUESTION

What are sound terms, and what rates should be charged in the financing of: a. Used cars? b. Television sets? c. Deep freeze units?

ANSWERS

L. A. Brumbaugh, Valley National Bank, Phoenix, Arizona:

Relying not on the dealer or collateral, but primarily on the character and capacity of the purchaser, used cars may be financed with or without dealer recourse. Minimum one-third down payments are required. Maximum terms vary from 24 months on 1954-1952 models to 12 months on 1948 and older models. Rates vary from six per cent discount per annum on 1954's to eight per cent on 1952 and older models. Requiring ten per cent down and allowing maximum terms of twenty-four months, television and small freezer units, without food plans, may be financed with full dealer recourse. Rates vary from seven to eight per cent.

William J. Fischer, Progressive Bank and Trust Company, New Orleans, Louisiana:

To answer your specific question it would only follow that it would be very simple to outline our policy to you in the financing of used cars, television sets and deep freeze units. At the present time we are not financing any automobiles beyond 1951 models; we are lending on the basis of 80 per cent of two-thirds of the Red Book average cash value; and we are getting six, seven, and eight per cent on used cars for 1953, 1952, and 1951 respectively, the maximum 18 months' repayment schedule. With reference to television sets and deep freeze units, they would both be handled as companion deals, and we would require a third down payment and 12 months' repayment terms.

O. W. Frieberg, American Trust Company, San Francisco, California:

Instalment buying must be wisely administered to keep it on a sound basis. Down payments to give the buyer an equity or protective ownership in the item purchased and reasonable lengths of maturity is just good business practice and sound for the dealer and the consumer credit structure. Unreasonably long terms and small down payments are not sound. An artificial demand is created by such terms which injures future sales. The time required to retire debt will keep purchasers out of the market too long for future purchases.

Sound terms contribute to the stability of consumer credit as a balance wheel in our economy. If stability is to be maintained controls must be exercised by the seller. Sound terms are established by favorable experience arising out of good business practice. Such terms currently are one-third down and 24 months for 1952 and 1953 used cars, one-third down and 18 to 24 months on 1949 to 1951 cars, inclusive, and for 1947 and 1948 cars, 40 per cent down and 12 to 18 months to pay. On new cars the absolute maximum of 30 per cent down and 30 months to pay is justified on the Pacific Coast only because automobile prices are higher due to additional freight charges. The 24-month term is still the desirable maximum.

On television sets, 10 to 20 per cent should be required as down payments and not over 24 months to pay. Deep freeze units financed with long terms, and including six months' food supply, have been poorly sold and adverse experience developed. Greater selectivity must be practiced by more careful investigation, as defaults and repossessions are certain if the buyer is not in the position to maintain the food supply without further credit. This serves to emphasize that sound selling in the final analysis requires the selection of good credit risks in addition to sound terms.

Cyril J. Jedlicka, City National Bank and Trust Company, Kansas City, Missouri:

Sound terms are a relative factor and are dependent on many conditions. The credit factor should be the primary consideration. Equities in the merchandise to be financed should be obtained and maintained by regular payments. Repurchase agreements or dealer endorsements, as well as reserves, also should be considered in setting rates and terms.

Most lenders believe that under present conditions loans on current model used cars should not exceed two-thirds of the present value of the car with a period of 15 to 24 months for repayment on a sliding scale based on the age of the car. Rates generally vary from six per cent to eight per cent per hundred added to the contract. On cars older than 1949 models a higher down payment is suggested with 12 months maximum maturity.

Television sets are generally sold on ten per cent to 25 per cent down payment with 18 months' terms with some exceptions to 24 months. Rates vary from six per cent to ten per cent per hundred with the most common rate being eight per cent. Most deep freeze sales are made with ten per cent down and twenty-four months

maximum maturity and the rate varies from six per cent to eight per cent per hundred.

Mason M. Jones, The Bank of California, Portland, Oregon:

In some ways, the above question is rather ambiguous and difficult to answer, due to the fact that no distinction is made between direct bank loans and dealer-originated paper. As a general rule, and in this state, direct loans are made on a monthly payment note, secured by a chattel mortgage covering the article being sold. Normally, paper originated by a dealer is on the basis of a conditional sales contract with full recourse and title is not passed to the individual until the appliance is paid in full.

The direct loan interest rate is governed by statute, whereas on a conditional sales contract the finance charge is not considered interest and is not, at least in this state, governed by law. Due to the limited allowable space in answering this question, my answer will be based on the assumption that the above question relates to direct loans made by a bank.

a. Used cars: 1952-1953 models, 60 per cent of average retail or selling price, whichever is the lower. Terms not to exceed 24 months. 1950-1951 models, 50 per cent of average retail or selling price, whichever is the lower. Terms not to exceed 18 months. 1949 and older models, 50 per cent of low book. Terms not to exceed 12 months. Five per cent gross charge per year. The legal rate in Oregon is ten per cent simple interest. However, a recent law was passed by the Legislature permitting banks to make up to an eight per cent gross charge on loans up to $500.00. While the above terms may seem somewhat severe, we feel that, under the present unsettled condition of the used automobile market, loans should be on a very conservative basis.

b. Television receivers, new, 15 per cent to 20 per cent of retail or selling price, the down payment to be exclusive of installation charges or cost of service policy. Terms, 18 months, eight per cent gross charge per year.

c. Deep freeze units, no experience with this type of equipment.

R. W. Schilling, The Bank of Georgia, Atlanta, Georgia:

a. We have found over a period of many years that a good sound policy in financing used cars is to require a down payment of one-third, and a maximum of 18 months. Local competition may cause extending these terms in some instances.

b. Television sets: Ten per cent down, 18 months maximum maturities. This is a category of financing that must be watched closely, first due to the possibility of color television coming in much faster than most of us expect; second, as this is being written several of the major manufacturers are allowing discounts as high as two hundred dollars on some new 1953 models. It is well to watch the television market, using as a guide the experience that many of us had in the switch-over from battery radios to electric radio sets some 20 years ago.

c. Deep freeze units, ten per cent down, 24 months maximum maturity. This is an item which is gaining favor as a household necessity. The main thing to watch is that in many instances they are sold under pressure methods. If this paper originates through regular established dealers, your credit experience will be satisfactory if normal precautions are used.

Keene W. Wolfe, Michigan National Bank, Battle Creek, Michigan:

Used cars are becoming a serious problem.

1. Cars sold above a fair market price.
2. Down payments padded in order to make a sale.
3. Dealers cutting each others' throats in order to move used cars.
4. Sales made to irresponsible parties, floaters.

We suggest the following rates:

a. Used cars, direct loans, 1954 models, one-third down payment or low book, whichever is lower, as designated in official guide, at the rate of five per cent with 24 months' time. 1953 models, down payment same as for 1954 at the rate of six per cent with 24 months' time. 1952 models, down payment same as 1954 at the rate of six per cent with 21 months' time. For 1951 and 1950 models, down payment same as 1954 at the rate of seven per cent with 18 months' time. Earlier models not financed unless previous exception credit experience.

Used car dealers. 1954 and 1953 models, one-third down or low book, whichever is lower, as designated in official guide, at the rate of five per cent without recourse, with 24 months' time. 1952 models, down payment same as 1954 at the rate of six per cent without recourse, with 21 months' time. 1951 and 1950 models, down payment same as 1954 at the rate of seven per cent, without recourse, with 18 months' time. 1949 models, down payment same as 1954 at the rate of seven per cent, with recourse, with 15 months' time. 1948, 1947, and 1946 models, down payment same as 1954 at the rate of seven per cent with recourse, with 12 months' time. Minimum charge, $15.00.

b. Television sets. New, six per cent, one-fourth down, 18 months. Used, seven per cent, one-fourth down, 15 months. Minimum charge, $7.50. Full recourse with dealers, five or ten per cent reserve held on each deal, dependent upon the strength of the dealer.

c. Deep freeze units. Home freezer, seven per cent, 15 per cent down, 18 months. Frozen food, seven per cent, 15 per cent down, six months. Minimum charge, $7.50. Full recourse endorsement by dealer on both conditional sales contract and unsecured note. Ten per cent dealer reserve withheld on each deal. One per cent distributors general reserve on all sales to dealers to protect the bank against the failure of a dealer.

T. W. Walters, The Bank of Ohio, Cleveland, Ohio:

a. Used cars. While our competition will not permit us to ask for full recourse on cars of 1949 and previous years, we feel that these units should not be financed on a nonrecourse basis. Current and one-year-old used cars should carry a full one-third down with advances not to exceed actual loan value, and should be paid within a period of 24 months. Older cars should carry a full one-third down, advance not to exceed actual loan value, and should be repaid within a period of 18 months. On cars of 1949 and previous years, these should be financed with full recourse, one-third down, maximum advance loan value, payments not to exceed 12 months. Prewar cars are not eligible for financing. In connection with rates, we finance late model cars on a basis of eight per cent, and the maximum under the Ohio Instalment Sales Act for older cars.

b. Television sets are financed locally on a basis of 15

per cent down, with a maximum of 18 months, and the rate is eight per cent discount.

c. Deep freeze units: 15 per cent down, maximum repayment schedule 24 months, and an eight per cent discount rate. There are some deep freeze plans available locally which provide a packaged unit including a freezer full of food for no down payment with a maximum repayment schedule of 24 months. We do not believe that such a plan is sound, and it is not available at our bank.

Building Materials

QUESTION

When a customer places a sizable order and you feel that the account will be spread over too long a time, what procedure do you recommend?

ANSWERS

B. F. Collins, Warners, Minneapolis, Minnesota:

If there is any question about an unusually large purchase being paid within terms, the material man should contact the customer and have an understanding as to just how the bill will be paid. Frequently the material man will find that the customer has already arranged financing to pay the bill within terms. These contacts should be made by someone in the credit department who can more accurately appraise the customer's statement pertaining to the credit problem at hand.

J. M. Dean, Building Material Dealers' Credit Association, Los Angeles, California:

You must develop the necessary information to establish a line of unsecured or secured credit. The problems in wholesale, retail, or instalment credits basically are the same, but each might require slightly different handling.

You must first find out your customer's ability and capacity to pay, the reason he requires extended terms, what type of security he can furnish. Further, what effect extended terms will have on the balance of your business, and can you realize a satisfactory profit if you carry an account beyond your established terms. Long term credit should not be extended just because you have lien rights or bond protection.

Harold A. Lambert, Burton Lumber & Hardware Company, Salt Lake City, Utah:

First, one should diplomatically call the customer's attention to the credit policy as it was explained to him when the account was opened. Then, find out definitely what his intentions are and whether or not he can conform to the company's credit terms and learn from him where and in what manner he is using the material. After obtaining sufficient information suggest to him ways of financing his project. If he should decline to cooperate there is only one thing to do: refuse to send him the material.

Consumer Finance

QUESTION

How can "overloading" be controlled?

ANSWERS

Kaa F. Blue, Foundation Plan, Inc., New Orleans, Louisiana:

Overloading can best be controlled at the source of instalment credit, sales contract or debt consolidation, by the credit or finance manager keeping the contract within the probable ability of the debtor to pay. The debtor should be educated as to the limits of his capacity, not in a manner to make him so fearful that he will discontinue buying, but rather so as to cause him to exercise discretion in his purchases. The oversold or overloaded customer becomes a hazard to himself, his family, and his creditors.

Douglas R. Gerow, Doug. Gerow Finance, Portland, Oregon:

1. Credit application should have applicant list everyone he owes, giving the unpaid balance and monthly payments.

2. Get a complete credit report from the credit bureau. Credit bureau information should give:

a. How has he paid in the past?

b. Whom does he now owe?

3. Have a definite credit policy relating amount of debt to monthly income.

4. Top management should approve your credit policies so they cannot be overruled by the sales department.

5. Let the sales department know your credit policies. Get their cooperation in making sound deals.

6. Consumer loan, finance companies and banks should have a local exchange through the credit bureau for reporting instalment debt. Local exchanges should have information regarding the number of loans per customer and instalment finance obligations to prevent overburdening of debt.

Banks, finance and consumer loan companies have demonstrated their ability to determine the amount of debt each individual can pay.

Francis W. Hulse, State Loan and Finance Corporation, Washington, D. C.:

Credit granters can control overloading by obtaining complete facts from the customer at the time of application concerning stability of job and income. It is also important to obtain a complete list of debts, monthly payments on debts and necessities of life. It is necessary that credit granters cooperate in providing information as to the amount owed and monthly payments. With this information, the credit granter is in position to budget income against expenses, and determine if the customer can meet the monthly payments. If the budget discloses he cannot carry an additional monthly outlay, credit should be refused.

T. M. Nesbitt, Finance, Inc., Birmingham, Alabama:

As long as we advertise no down payment, 36 or 42 months to pay, your credit is good, we have a lay-away to suit you. Even the undertaker has a lay-away plan. When are we as credit managers going to learn to get a complete new check from the bureau on all borderline or doubtful applicants to see if they are in a solvent state before more credit is granted? When you go to the bank to get money, your banker (if he is a good one) asks you about your financial condition. If you are not solvent,

he says no. When will we learn to say the same thing, "No!"

Overloading an account is not only the fault of the customer, but many times that of the credit manager as well. It is the credit manager who must control this if the customer will not. The credit manager has the responsibility of fully cooperating with the credit bureau and asking for, giving, and abiding by credit information on each customer. There is the duty of being able to say "no" to a customer when such information warrants it. In turn, he should explain to the customer and ask his cooperation in this situation for the good of all concerned.

If we would all learn to turn down the many temptations we meet each day and consider the possibilities of overloading ourselves before we borrow money or buy a lot of merchandise we cannot pay for at the particular time, we would not become so involved. If the consumer has his credit account established with a particular merchant, the merchant should realize the condition of the consumer's financial statement and not extend a lot of credit or permit the consumer to indulge in a lot of buying from time to time. Therefore, the consumer would not become so overloaded, thus preventing a lot of confusion and worry.

Dairy and Baking

QUESTION

In this competitive market in which quality, service, and prices are equalized, some route books show accounts seriously overdue. Is it good procedure to stop further company credit on these and require the salesman to continue service only on his personal responsibility for the added charges?

ANSWERS

Wilson C. Fox, The Babcock Dairy Company, Toledo, Ohio:

It is good procedure to stop further credit in a situation like this. If the account becomes uncollectible the company is liable only for the amount up to this point. It is the salesman's personal responsibility for any additions. The salesman is in a good position to make satisfactory explanation to the customer. The account could be handled on a cash basis each delivery, or the customer may purchase tickets for cash for future deliveries. During this period the salesman should make arrangements with the customer to pay a periodic specified amount on the old balance.

Joseph A. Gilson, The Polk Sanitary Milk Company, Indianapolis, Indiana:

It is not good procedure to stop further company credits for the simple reason that 95 per cent of slow-pay accounts have been customers of long standing and have been allowed to increase at the rate of one or two dollars per month over a period of five years or more. It would be a sales calamity to stop credit or make salesman responsible for the charge. We have never placed a credit limit on a customer. In fact, our growth as an independent milk company has been due to our liberal credit terms. Our charge to Profit and Loss has never gone over one-fourth of one per cent. The other five per cent of slow pay accounts were those we knew were credit risks or trusted to drivers' judgment, where accounts were not brought to the attention of route supervisors or credit office until salesman realized he was wrong in his judgment. I sincerely believe that slow pay accounts have reached the point where they should be given serious consideration.

Harry W. McMillan, Borden's, Detroit, Michigan:

Credit control is an important and necessary function of a sound credit policy. Credit controls should be set by a dollar value credit limit. Exceeding this credit limit should be the salesman's personal responsibility and it should not be required or authorized by the company. It is always good business to stop further company credit on any account when the company credit limit has been reached, otherwise some salesmen would grant credit beyond the customer's ability to pay. Overextension of credit breaks down good customer relations more than curtailing credit and service.

W. E. Menzenwerth, St. Louis Dairy Company, St. Louis, Missouri:

Enthusiastic accord in the importance of good will is a major factor in building and holding sales. Sales volume, however, must not be bought with extreme slow pay accounts and excessive credit losses. We must exhaust our collection efforts in a manner that will bring our company the best possible results; that is, fair profits with the percentage of losses controlled to a minimum. If the circumstances in this case indicate a further prolonged condition of financial stress we are obliged to stop authorized credit. If the salesman elects to continue credit he must accept personal responsibility to finance the additional charges.

W. A. Schenk, Ideal Pure Milk Company, Inc., Evansville, Indiana:

We all have customers who sometimes get entirely too far behind with their accounts. Every case should be handled individually, if possible. The customer's past paying habits, how long sold, employment, etc., should be taken into consideration, together with up-to-date credit rating. If it looks like he is able to pay, then I would recommend and insist that the salesman collect the customer's current account each week, plus a few dollars on the balance. Most customers will agree to this arrangement. In this way you keep his business and will eventually reduce the account to normal.

Harry N. Taylor, Beatrice Foods Co., Tulsa, Oklahoma:

I believe all of us extending unsecured credit will agree that selling is becoming more competitive, thus making each of us more credit and sales conscious. Each past-due account has a history behind it. To handle the account properly one should know that history. When this information is obtained you should do one of two things: Permit the route salesman to continue service under the protection of the company, or have the service discontinued altogether. Under no circumstances permit a route salesman to extend credit on his own responsibility. By permitting your salesman to extend credit on his own you are asking him to do something you refused to do, and in most cases you will have a dissatisfied salesman. It will also result in controversy over the amount of the account. ★★★

Extend Credit? Why Not? But....

CARL B. FLEMINGTON, F.C.I., F.C.I.S., *Secretary Manager,* Credit Bureau of Greater Toronto

THERE ARE a number of advantages to be gained in extending credit to the consumer, of which perhaps the chief are these:

(1) You are able to build up a regular clientele. Those who buy for cash are more apt to shop anywhere that fancy decrees.
(2) Charge customers usually buy in more expensive manner and more often than if buying for cash.
(3) Customer good will is enhanced through credit privileges being extended to them.
(4) It facilitates the handling of approval items and eliminates C.O.D.'s to this category of customers.
(5) It provides a proper mailing list for promotional ideas and also eases the processing of adjustments, but let us not presume that this type of business does not also introduce certain disadvantages, among which we might include these:

(A) Charged merchandise means tied-up capital and adds to interest charges.
(B) Customers may purchase beyond their ability to pay. No matter how perfect the collection system some bad debt losses are bound to occur.
(C) Credit customers have a greater tendency to return goods than cash customers.
(D) Credit adds to the cost of operation in the maintenance of accounts together with preparation and servicing of monthly accounts, etc. So, the question arises, is it profitable to extend credit to my customers?

There are, of course, three main types of retail credit as they affect the trade:

(A) Charge accounts. This type is usually restricted to those above certain income brackets, and is usually extended for a period of 30 days, or, to become due on the 10th, or 15th, of the following month. The title of the merchandise passes to the customer at time of sale.
(B) Budget or Instalment (Subject to Lien Agreement). Although not essential this is usually typified through means of a decreed down payment, after which the balance becomes payable over a specified period of months. Title remains with the vendor until such a time as the goods are fully paid for.
(C) Revolving credit. This type of account is usually considered as bridging the gap between charge and instalment credit, usually extended over 6 or 10 months with the down payment equaling the required monthly payment in amount. Title to the goods may also be retained here until completion of the contract. In this type of credit additional purchases may be made from time to time as long as the high credit does not exceed that mutually agreed upon by store and customer.

Let us presume that we have already adopted a credit sales program and hand-in-hand with our competitors and business in general are wondering what of tomorrow? What should be our attitude in the future? Should we restrict terms and ask for larger down payments? What about our collection policy? Should it be more strictly enforced?

We must keep in mind that we are presently living in a highly competitive era, when in order to survive, our terms and requirements must be somewhat in line with general conduct in retailing. We must realize that if our policy is too much in variance with others in our line, sales will suffer accordingly, but to what extent can we safely extend credit?

Some anxiety prevails relative to the increase in consumer credit sales, but it is only natural to suppose that following the lifting of controls in March of 1952, there remained a vast potential of customers with desires and needs which had for some time been denied, due to the imposed severity of terms. This resulted in a flood of orders for previously wanted goods of all descriptions, which after all is a natural sequence and should not be interpreted as a spending orgy or extravaganza.

It is to the credit of retail trade generally that today, despite competition, business generally is conducted along ethical lines. It is too much to expect that this is true in all cases, because the exception occurs in all pursuits, but invariably value is given and the circumstances of the customer are regarded.

Better Cooperation Today

Perhaps to an extent never known before, merchants are cooperating and confiding in one another, in an effort to protect the calibre of their accounts receivable and prevent pyramiding on the part of the debtor. The extent to which you may safely increase your credit sales, depends on your ability to finance this type of business; whether you carry your own paper or re-finance. Your ratio to total sales should remain in correct category to capital resources.

Competition demands some liberalizing of terms but a sale should never be made at a loss in over-all operation respecting any commodity. A profit should ensue although it need not be excessive. Your purchase price must be recovered, together with your selling cost and general overhead. Wherever possible, create a customer equity at the time of purchase and restrict terms, but only to a point where the debtor is readily able to complete the contract in a satisfactory manner.

Customers will respect a firm collection policy if they know that the same treatment is being accorded to all. Laxity in follow-up of an account breeds disregard on

the year 1954. These facts will reveal the trends and will provide the credit man, the sales manager, and the general management with information to reshape their policies, if needed. Certainly the credit department will play an important part in successfully negotiating the readjustment of business to the active competitive conditions which will exist in the year 1954.—G. L. Ogle, President, Ideal Pure Milk Company, Inc., Evansville, Indiana.

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Because of restless world conditions, reduced payrolls since overtime cut off, less income in take-home pay, business becomes more competitive; selling will be viewed more realistically. Therefore, it is imperative that we keep our files up-to-date, subject to change. The problem of the foreseeable future in the over-indebtedness of our customers must be scrutinized more closely than ever, working diligently in keeping collections current for full purchasing power. Lax control loses not only present account but future patronage. In short, business must have better managing and selling with the very best of satisfying service to maintain volume and collections in the accounts we already have and an increase in number of new accounts.—Una M. Pearson, Pearson's, Fort Smith, Arkansas.

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The most important retail credit problem in 1954, it seems to us that, in these highly competitive times, when every business is in competition for their share of the consumer dollar, with not only members of their own field, but also with every other business, whether it be hard goods, soft goods, automobiles, houses or what have you; most of the retail credit granter's efforts must be channeled in several directions; namely, a more aggressive merchandising program, aided by the credit personnel, to hold sales up on the one hand, and the maintenance of good collection percentages on the other hand, coupled with efforts made to better educate the public in the wise use of their credit and the necessity of payment of their obligations according to terms.—Joseph P. Rutland, President, Rutland's, Orlando, Florida.

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Buy Safely—Pay Promptly. This properly analyzed can explain the retail credit problem that confronts sales managers in 1954. I am going to be very optimistic about retail business in 1954. Any decline will be minor in nature and a healthy volume of trade will be done through the first half of 1954. The consumer will have the money, but he will have to keep laying it on the retailer's counter. The job of the credit sales manager will be to 'curb' the buying of the 'unsafe' credit buyer. This is the fellow who is loaded down with too many payments. The reports from credit bureaus should be analyzed thoroughly regarding the present obligations of buyers, even if past payment records have been satisfactory. New accounts should be welcomed and encouraged throughout the year. Aging of accounts should be more frequent in 1954 as a good watch dog for the collection department. Keep all accounts up to date in 1954 because it may be harder to get in 1955. —Robert W. Schmidt, Comptroller, Reifers Furniture Company, Lafayette, Indiana.

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Our thinking here in Walker-Scott Company is that there need be no change in our basic business-like credit policies. They have been either right or wrong in the past and our experience over all would indicate that they have been pretty basically right. All the economic studies developed for us in connection with our own business and San Diego as a whole go for only a slight adjustment which will bring about a drop of from three to five per cent in sales. This, by no means, points to any need for hand-wringing concern, for in the overall the economic study that more people will be working, even though the retail business will be down. This has to do with a switch of workers from the construction industry to the aircraft industry. We think that it is well to review all policies that nothing should be static whether it has to do with the return of merchandise or policies to the granting of credit. In our case we disagree with this on-again, off-again business every time there is some economic adjustment. We plan to be alert in the granting of credit and in the past we have had this policy and never failed where the human factors enter in both sides of the interview. Such will continue to be our policy and program as we move forward in the fastest growing area of America, namely California, and in California, the San Diego area.—George A. Scott, President and General Manager, Walker's, San Diego, California.

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We feel that credit problems in 1954 are the same as in every year. One must pay complete attention to collection of accounts and granting proper credit to those who have good steady prospects. Ours is a business of taking chances, of course, but we maintain the same steady policies year in and year out which have proved successful for over fifty years. —Milton F. Silverman, Secretary, Kobacker Furniture Company, Toledo, Ohio.

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the part of a debtor and encourages return of the same treatment. The sooner you are able to complete a contract with your customer the nearer you come to reselling him. If you adopt a lenient policy, without cause or requirement, you encourage a spending of your money elsewhere.

Above all, know your customer, find out all the facts when taking the application and then obtain an unbiased report on the degree of risk involved. It is well to keep in mind that there is a saturation point to the consumer dollar and if this is reached, despite the best intentions on the part of the debtor, it is physically impossible for him to meet further commitments in a satisfactory manner.

There is an unlimited potential in consumer credit sales, and persons in all walks of life are becoming more and more conversant with this type of convenience or accommodation. The time is long since past, when it was considered a stigma on one's personal conduct to require credit terms. A charge account, due to the selection of risk, is usually looked upon as a convenience in shopping, whereas budget or installment credit is generally conceded as an aid in financing.

There is no reason to believe other than that credit sales should prove a desirable acquisition to your business, but to grant credit indiscriminately is not only unwise but will undoubtedly prove prejudicial to business interests. The modern credit bureau structure is such that it affords a maximum of protection at a minimum of cost. Each subscriber who wholeheartedly cooperates in making his ledger experience available for the mutual protection of others makes a very worth-while contribution to the business life of his community, as it is only through the interchange of credit experience that future pitfalls may be avoided.

The deserving customer should be accommodated promptly, a situation which he has every right to expect, but by the same token, every available safeguard should be employed to guard against delinquents. It is generally conceded that 95 per cent of the people are fundamentally honest and will do everything in their power to complete contracts in a satisfactory manner, but it is the 5 per cent or less which may easily represent the difference between profit and loss on your financial statement. Perhaps we might conclude with this familiar quotation, "A man's judgment is no better than his information. He is wise who takes counsel from those who are qualified to give it." ★★★

Credit Problems For 1954

FOR YEARS answers to the "Most Important Retail Credit Problem" have been looked upon as a symposium in Credit. Comments for 1954 are enlightening and will prove of interest to Management, regardless of type or size of business.

The January issue is devoted to opinions of Management, representing many lines of business, financial institutions and firms doing a charge account and installment business.

The February and March issues will include opinions of Management, as well as credit executives and credit bureau managers. They are fully conversant with credit conditions as they prevail today and qualified to give you a preview of "What's Ahead."

The following salient points are from opinions published in this issue. Sales Promotion was number one in importance, followed by Control and Collections. They are listed in the order of importance based on the number of replies on the same subject.

Sales Promotion:

(a) Review merchandise and credit policies; adopt a well-balanced credit policy.

(b) Merchandising program should be more aggressive, aided by credit personnel, to build sales and maintain good collection percentages.

(c) Salesmen should be alert, courteous and aggressive; sell merchandise on merit and not sell terms.

(d) Tendency to stretch terms on substandard risks results in collection problems and repossessions.

(e) Offer longer terms to increase sales of hard merchandise.

(f) Adequate down payment and realistic payment of terms desirable.

(g) Increase volume without expanding terms.

Control:

(a) Make proper investigation of all applicants for credit.

(b) Screen credit risks closely.

(c) Be more careful in the selection of risks.

(d) Watch accounts closely to curtail overbuying.

Collections:

(a) Prepare an age analysis of accounts more frequently.

(b) Collection procedure should be vigorous and follow-up consistent.

(c) Skips are on the increase due to changes in employment, resulting in moving from city to city. Applications of such customers should be examined for possible means of tracing and all skips reported to the Credit Bureau.

Recommendations of Management, if considered carefully, will result in the building of credit sales on a sound and profitable basis and a satisfactory collection experience. They should be read by all store executives and others interested in Credit Problems for 1954.

L S Crowder

General Manager-Treasurer

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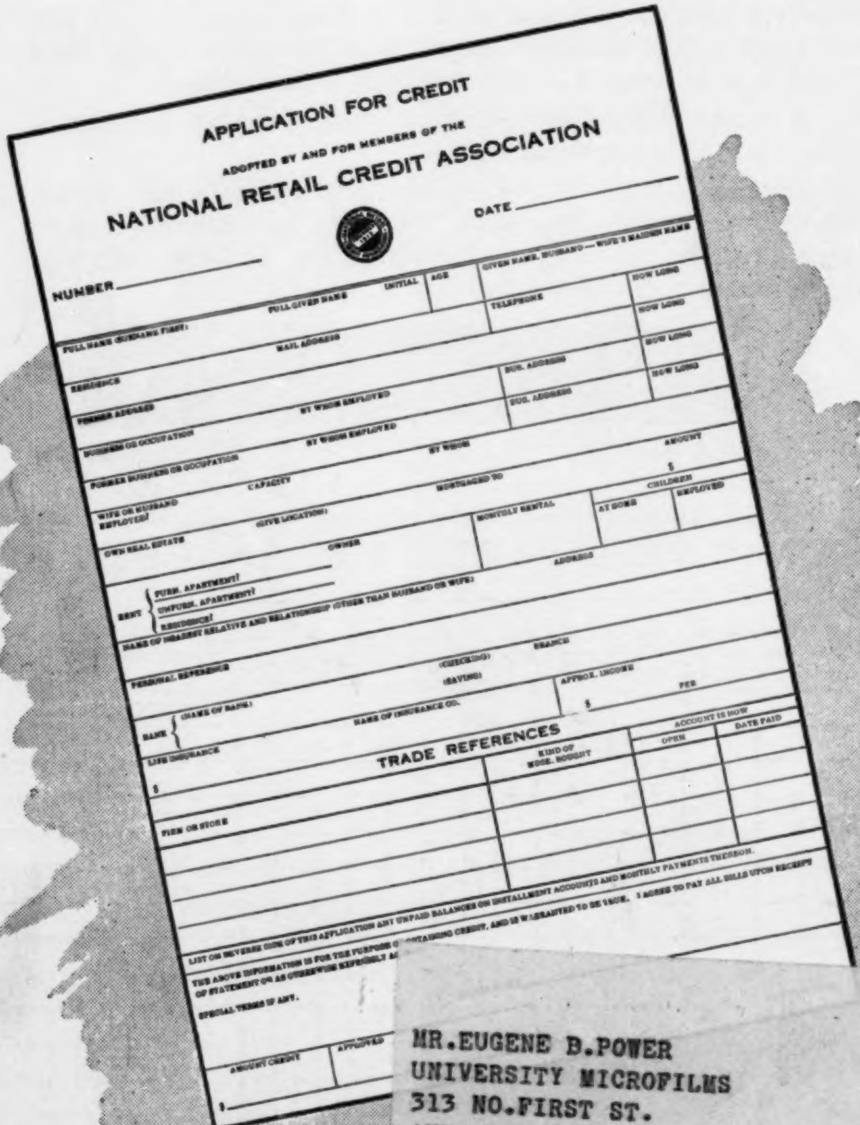
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